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Report

drawn up on behalf of the Committee on Economic and Monetary Affairs

on the revival of economic and monetary union

Rapporteur: Lord ARDWICK

PE 52.839

English Edition

On 17 January 1978 the President of the European Parliament, pursuant to Rule 25 of the Rules of Procedure, referred the motion for a resolution tabled by Mr Müller-Hermann and others on behalf of the Christian-Democratic Group on the revival of economic and monetary union to the Committee on Economic and Monetary Affairs as the committee responsible and to the Committee on Regional Policy, Regional Planning and Transport for its opinion.

On 21 February 1978 the Committee on Economic and Monetary Affairs appointed Lord Ardwick rapporteur.

It considered this proposal at its meeting of 20/21 February, 2/3 March, 18/19 April, 25/26 May and 19/20 June 1978.

On 4 July 1978, pursuant to Rule 25 of the Rules of Procedure, the motion for a resolution tabled by Mr Ansquer and others on behalf of the European Progressive Democrats on economic and monetary union was referred to the Committee on Economic and Monetary Affairs as the committee responsible and to the Committee on Social Affairs, Employment and Education, the Committee on Budgets and the Committee on Regional Policy, Regional Planning and Transport for their opinions.

On 25 September 1978 the Committee on Economic and Monetary Affairs confirmed the appointment of Lord Ardwick as rapporteur.

It considered the two motions for resolutions at its meetings of 18/19 September, 17/18 and 30/31 October 1978.

At its meeting of 31 October 1978 the committee adopted the motion for a resolution unanimously.

Present : Mr Pisani, chairman ; Mr Notenboom and Sir Brandon Rhys-Williams, vice-chairmen ; Lord Ardwick, rapporteur ; Mr Damseaux, Mr Deschamps, Mr Glinne, Mr H.-W. Müller, Mr Normanton, Mr Schyns (deputizing for Mr De Keersmaeker), Mr Stetter, Mr Verhaegen (deputizing for Mr van der Gun) and Mr Zywietz.

The opinions of the Committee on Regional Policy, Regional Planning and Transport and the Committee on Social Affairs, Employment and Education, are attached.

The opinion of the Committee on Budgets will be published separately.

C o n t e n t s

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The Committee on Economic and Monetary Affairs hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement :

MOTION FOR A RESOLUTION

on the revival of economic and monetary union

The European Parliament,

- having regard to its resolution of 11 March 1976 on the Community of stability and growth[1],
- having regard to the motion for a resolution on the revival of economic and monetary union tabled by the Christian-Democratic Group (Doc. 496/77),
- having regard to the motion for a resolution on economic and monetary union tabled by the Group of European Progressive Democrats (Doc. 209/78),
- having regard to the initiatives taken at the European Council in Bremen,
- having regard to the report of the Committee on Economic and Monetary Affairs and the opinions of the Committee on Regional Policy, Regional Planning and Transport, the Committee on Social Affairs, Employment and Education and the Committee on Budgets (Doc. 437/78),

1. Recalls that in 1972 the governments of both old and new Member States committed themselves to complete full monetary union by 1980 ;

2. Deplores the lack of political will and the subsequent economic difficulties which prevented the implementation of this policy, adopted in 1972 ;

3. Considers that the international scale of the crisis and the interpenetration of the economies of the Member States prevent any one country from overcoming the economic and social crisis on its own ; recognizes that in spite of national efforts, the continuance of the economic recession, accompanied by a structural crisis, is now a powerful argument for a determined new effort to make progress towards economic and monetary union ;

4. Considers that the first steps must be taken towards economic and monetary union and that this is feasible even if a monetary union based on a single European currency cannot be envisaged from the outset ;

5. Views in this light the Bremen proposal for the introduction of a European monetary system to minimize fluctuations in Community currencies, thereby establishing a zone of stability characterized by converging economic and monetary policies designed to promote higher growth rates and an improvement in the employment situation ;

[1] OJ No. C 79, 5.4.1976, p. 27

6. Stresses that for a European monetary system to be workable and, more important still, to lead to economic and monetary union, it must be accompanied by immediate national and Community economic policies designed to further the convergence of Member States' economies with a reduction of regional and social disparities : this would require the European monetary system to be organized in such a way that exchange rate stability is encouraged by the improvement of credit mechanisms and transfers of resources within the Community as a means of promoting self-help ;

7. Points out that the reduction of regional and social disparities will be made considerably easier by a high rate of economic growth and that such growth will be encouraged by completing the construction of a real common market by removing all remaining barriers to trade between Member States ;

8. Emphasizes that even the establishment of a European monetary system must be thoroughly prepared, recalling that governments of Member States entered into the original EMU commitment without having fully appreciated the conditions and obligations which would need to be fulfilled ;

9. Realizes that full monetary union with a single currency or irrevocably fixed parities is sharply differentiated from the transitional phase now envisaged, in that full union would require technical and political control over money supply and other macro-economic policies to be exercised by stronger central Community institutions, under the control of the European Parliament,instead of by national governments ;

10. Notes, finally, that even a European monetary system which is not based on a single European currency requires mutually adjusted economic and monetary policies, failing which a further setback must be expected ; this would have even more serious implications than the setback of the Werner plan had for the desired progress of the Community towards greater integration, improved economic efficiency and thus political solidarity ;

11. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

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EXPLANATORY STATEMENT

FOREWORD

Some people use the term 'ECONOMIC AND MONETARY UNION' loosely. They mean by it any substantial measure of economic and monetary integration.

In this report, the term EMU will be used strictly to mean a union in which a single currency replaces the currencies of Member States and is supported by the necessary economic and financial policies.

EMU of this kind, the complete EMU to which the President of the Commission aspires, requires at least the framework of a federal system.

It implies a central monetary authority ultimately responsible to a central political institution.

It implies that the Member States give up their power to conduct national macro-economic monetary and budgetary policies.

It implies that they must accept uniform, or almost uniform corporate and personal taxation; otherwise a single-currency Europe with free capital movement would consist of competing tax-havens.

Thus EMU would require considerable national sacrifices in return for the prospectively great collective benefits.

Nobody, however, proposes to go to complete EMU in one giant stride. There must be what M. Pierre Werner, the accoucheur of EMU, has described as a pre-union stage. And this, in itself, both demands and promises solutions to some of the major problems of the current crises.

In the pre-union stage a system must be reached of stable though not irreversibly fixed parities. At the same time budgetary, monetary and fiscal policies must be coordinated. There must also be mutual aid for Member States with currency difficulties. And there must be a significant attempt to smooth out regional inequalities.

These are, broadly, the aims of the resolution tabled by Mr Müller-Hermann and his Christian Democratic colleagues; and also of the Commission's Five Year Programme sponsored by Mr Ortoli. They are also more or less in line with proposals that have been made by Mr Werner and Mr Marjolin. And they are echoed by the Bremen proposals for a European monetary system.

CHAPTER I

ECONOMIC AND MONETARY UNION

EXPLANATION: INTRODUCTION

1. Mr Jenkins seized the opportunity at his lecture in Florence, in June 1977, to revive the debate on economic and monetary union and to assert that it would help member countries to raise their living standards and lower their inflation and their unemployment figures. He was encouraged to do so because early in the year Messrs Giscard and Schmidt had shown a reawakened interest in the subject.

2. The time may also have seemed ripe because the worst of the recession which had started four years before was now over, and the enlarged Community was on the point of completing the customs union. A new stage of the Community's development was necessary.

3. The President of the Commission was also moved by his fear that unless the central economic weakness of the Community could be overcome, its external cohesion might not be retained. Moreover, its progress would be halted just as it was facing the strains of the further enlargement.

4. The idea of EMU was embraced by governments at the beginning of the decade. They visualised an economically integrated Community with a single currency or, its equivalent, national currencies with immutably fixed parities.

5. If they gave too little thought to the difficulties, it was because they were not yet obvious to countries which were used to the disciplines of Bretton Woods. And in those days, Community inflation rates varied between a mere two per cent and four per cent.

6. In 1971, however, the whole context of the projected monetary union changed with the break-up of the old monetary order, after the suspension of dollar convertibility.

7. From 1972, the Community was attempting to travel towards monetary union by way of the 'snake', which was intended to lead to irrevocably fixed parities by 1980.

8. Faith in this process receded as first Britain, and later Italy and France, had to leave the 'snake' and float independently.

9. The leap in oil prices and the consequent cost inflation produced a world recession of pre-War severity. Inflation rates in the Community ranged from 7% in Germany to over 25% in Britain and Italy.

10. The studies of EMU made against this background by M. Marjolin and M. Tindemans were not encouraging. Indeed the latter suggested that the strong currencies might go ahead alone. The two tier concept, as it came to be known, was not welcome. EMU was no longer a subject for practical men and was left to academics.

11. By 1977, it was obvious that there would have to be changes in the world financial system. The American dollar was becoming less and less adequate to perform its role as the main reserve currency.

12. It was also obvious that the system of flexible exchange rates had not produced the promised miracles. Floating had not allowed Member States to expand without fear for their balance of payments; and the problems of unemployment remained unsolved, against a background of formidable, even if diminishing, inflation.

13. Yet a predilection for flexible rates remained. For in spite of the prevalence of high unemployment and inflation in the same economy, the belief persisted that there was a trade-off between unemployment and inflation; and that it was the right of a government to choose which of these it thought to be the lesser evil.

14. It would follow, if this were so, that countries with different preferences could live together only if they had exchange rates which could adjust to different and varying rates of inflation.

15. At Florence, Mr Jenkins pleaded for the discarding of arguments against EMU based on such obsolete theory.[1] "That is not how the world really is", he said, "and we all know it". Yet this is the plane on which the argument is still being conducted in political circles and must be met.

16. Under EMU with a common currency, what are regarded as among the most important functions of modern government - control of the exchange rate and the money supply - would be exercised by central Community institutions.

17. Some opponents of EMU fear that a national government, deprived of these functions, would be running the risk of higher unemployment.

18. A British economist has put the dilemma like this:- monetary arrangements cannot insulate a government from either the consequences of world events, or of its own policies. Yet 'powers to create money and alter parities allow governments to cushion those consequences and to some extent to choose the form in which they will be felt'.

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[1] In August 1978, the National Institute of Economic & Social Research recommended the British government to meet the expected recession of 1979 by cutting taxes, letting the pound depreciate and maintaining a tight incomes policy to ensure that the depreciation is effective. Experience has shown that the effectiveness is temporary. Workers insist before long on catching up.

19. Thus, some freedom of manoeuvre would be reduced if governments lost those powers.

20. There is also a fear that though the nation state under EMU would shed its balance of payments problems, an adverse balance could reappear in another form, largely in the unemployment figures.

21. If, for example, wages rose faster and/or output rose slower in country A than in the rest of the Community, this loss of competitivity would result in country A's consumers buying more goods from other parts of the Community, its firms making financial losses and so employing fewer people. It's government, too, might have to impose deflationary measures which would put people out of work.

22. Governments, still clinging to a national power proved to be less effective than it was once thought to be. Yet they acknowledge that current problems are not capable of a national solution - not even for the strongest countries.

23. The conviction that there are easy ways by which a government can increase demand is fading away - sometimes into economic defeatism. There is a new emphasis on restraining monetary and domestic credit expansion.

24. Such prudent measures may be the essential basis for expansion. But they are not in themselves sufficient to stimulate expansion.

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25. Throughout his Florence lecture, Mr Jenkins refers only to MU, not to EMU. One supposes that this was done to keep the subject within bounds. Indeed, his lecture contained a number of economic implications.

26. Economic union, it must be assumed, goes far beyond the original economic objectives of the EEC.

27. It covers the Commission's current efforts to coordinate demand management and budgetary policies of Member States. But it also concerns the mammoth task of reforming the structures of national economies in order to reduce the disparities of their economic performance.

28. Economic union specifically involves a considerable regional policy.

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29. Mr Jenkins sees a future Community possessing its own major international currency system, a reserve currency, which would be a joint pillar of the world monetary system. He believes that the new case for EMU goes to the very heart of our problems of international financing, unemployment and inflation.

30. He sees a Community relieved by monetary union of its short-run balance of payments problems. Thus, its member nations would no longer be constrained by such problems in their pursuit of economic expansion.

31. Investors would have greater confidence that there would be a steady pursuit of expansion in Europe; that there would be lower inflation, and strengthened demand with a wider geographical base.

32. He states emphatically that the weaker regions will have to be insured against the aggravation of their difficulties by EMU.

33. This requires to be spelled out. There would be serious difficulties in the regions if the structural differences between the member nations remained unchanged.

34. The current problem of regional disparities would be greatly sharpened if wage rates throughout Europe tended to move towards equality, while regional productivity remained static.

35. Trade would be attracted even more strongly than it is now to those parts of the Community where productivity is highest; and so would capital investment.

36. These regional problems are with us now, not only within but among the member countries. Until the regional commitment is rightly conceived and adequately backed, no scheme for monetary unity will make sense, or command general support. There would have to be a redistribution of wealth from the richer to the poorer nations.

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37. The President will disarm some critics by his expressed belief that there is no need to develop the Community on a traditional federal scale. The Community, he says, should be given only those functions which it can do better than the member nations can do.

38. He accepts the calculation that definitive monetary union can be achieved on a budget of five to seven per cent of Community GNP. And great progress could be made on half that sum.

39. It would be, however, a major constitutional step and so would have to command not merely the support of governments, but also of all the major political parties of Europe.

40. Most studies of MU seem to have been made by economists, bankers, and civil servants. What is now necessary is a sympathetic examination in depth by politicians of all parties. There is no need for a call to action to be made to political opponents of EMU; they are already active.

41. Political studies need to be made not only of how democratic political control could be exercised over a central authority, but of the wider political implications of EMU.

42. For example, what political freedom would it be possible for a member nation to exercise in the kind of developed Community now envisaged? How far could it move towards Socialism? Or how far towards neo-liberalism?

43. It may be suspected that it could go only a limited distance in either direction. For if the macro-economic decisions are made centrally, if they envisage freedom of capital movement and fiscal harmonisation, then strict limits are set to the political development of a nation state within the federal framework.

44. The Community itself would, of course, be free to move in the direction which the majority chose and the minority could tolerate.

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45. No time-scale was given by the President for the attainment of EMU. He believes that the Union has to evolve, but reminds us that the evolutionary process involves gradual progress, with occasional forward leaps. Europe should now prepare for the day when the great leap could be made.

46. All authorities seem to share Mr Jenkins' view that a pre-union stage is essential. The five year programme presented by M. Ortoli for the Commission can be seen as such a stage.

47. The Bremen proposals now being studied and worked out in detail are a most import practical outcome of the programme.

48. They propose an important step on the road to EMU, but a necessary step: a European Monetary System which embraces strict exchange relationships, a richly endowed pool of reserves, and the creation of a reserve currency based on the European unit of account which could develop over time into a common European money.

49. These proposals have been described in such a jejune communiqué that it is impossible yet for anybody to pass judgment on them. They do, however, arouse hope that EMS will bring some of the benefits Mr Jenkins claims for full EMU. It would, of course, bring some of the problems too.

50. The economic side of Bremen was presented even more sketchily than the monetary side. Nevertheless, the principle was agreed that ways would have to be found of strengthening the weaker economies and bringing inflation rates closer into line. The subsequent agreement, about national growth and anti-inflationary targets, achieved at Bonn a few weeks later by the seven major industrial nations, was also viewed with hope, but without confidence of substantial economic accomplishment.

51. Finally, is there an alternative to EMU? There are several. We might go on as we are doing, and hope to muddle through. Or we might be content with the Bremen proposals for a European monetary system which could have some of the advantages which Mr Jenkins claims for full EMU.

52. Or some member nations might prefer to go it alone, to pursue growth and full employment behind national tariff walls and quota systems. This could lead to the disruption of the Community, even to a world of national protectionism.

53. What the political consequences would be, it is impossible to say. But those members who lived through the era of nationalism in the thirties must have grave apprehensions.

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EXPLANATION: RETROSPECT

54. The European Council decided at Rome in March 1977 to assess at the end of the year the prospects of progress towards EMU.

55. The Commission sent a report on the subject (COM(77) 620) to the European Council in November in time for the promised assessment. In February this year, the Commission produced a follow-up document on an action programme for 1978 (COM(78) 52).

56. Parliament has not been asked to study these documents, a remarkable and incomprehensible omission.

57. Parliament was, however, able to hold a brief preliminary debate on EMU at the January plenary. It was opened by President Jenkins and Vice-President Ortoli also spoke.

58. Moreover, Mr Müller-Hermann and colleagues in the Christian-Democrat Group had taken the initiative to present to Parliament a fully developed resolution on the revival of EMU.

59. Although the study of EMU is a perennial responsibility of the Committee on Economic and Monetary Affairs, it is on this resolution that the committee is instructed to report.

60. However, Mr Müller-Hermann's resolution and the more detailed Commission documents (which it will be convenient to describe as "the Ortoli Programme") run in parallel. The Ortoli programme is naturally more operational in character.

61. Your rapporteur hopes that you will think it useful that they should be studied alongside one another and jointly inspire the resolution which the Committee is submitting to Parliament.

62. The picture of these EMU initiatives has been blurred by the supposed differences of the Jenkins and the Ortoli approach.

63. The difference seems, however, largely one of viewpoint. Mr Ortoli looks from the point of departure at the path to be followed. Mr Jenkins views it from journeys end.

64. Mr Ortoli prescribes how the obstacles must be overcome. Mr Jenkins points to the glittering prize at the end of the road - a monetary union sealed with a single currency. Such a system, he believes, would make it much easier to deal with the problems of growth, inflation and unemployment.

65. One commentator has said that Mr Jenkins has fired not a starters' pistol but a Verey light.

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66. The task for the next five years as seen by Mr Müller-Hermann and Mr Ortoli too is to persevere towards a Community of economic growth and monetary stability by following harmonised policies on both monetary and economic affairs. It means bravely setting out to conquer the inflationary recession and the unemployment it has created. These conditions have retarded, though not totally impeded, the economic development of the Community over six despairing years.

67. It must, however, be recognised that the attempt today starts in a climate of disillusionment and scepticism about the feasibility of complete EMU. And there are some who totally repudiate it as a goal.

68. But both true believers and sceptics recognise that EMU is not an immediately attainable goal or one that can yet be fixed at a point in time. Mr Jenkins put this in his Florence lecture in memorable terms:

> There is room for tomorrow's
> act of better coordination
> and for today's discussion
> of a more ambitious plan
> for the day after tomorrow.
> The process has to be seen as one.

69. There need, however, be no conflict yet between sceptics and believers. The road prescribed is that towards economic growth and monetary stability, a goal which surely must meet with the approval of all who want a more effective Community, including those who do not want EMU.

70. At some point of achievement, however, the Community must decide whether to go ahead to EMU or to be content with a lesser system of cooperation.

71. That point where take-off is a possibility cannot be reached until the Community has rebuilt the self-confidence it had when it embarked on the Werner plan.

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72. EMU is used in this report to mean an economic union built around a single currency, or its equivalent. All other schemes designed simply to achieve more stable currency relations will be described as EMS - a European monetary system.

73. It is important to maintain this distinction for EMU demands that Member States cede some national sovereignty. Schemes such as the 'snake', and other arrangements discussed before and at Bremen, may demand strict discipline and close cooperation. But there is no loss of sovereignty, for exits are provided for any country which may find that the arrangement imposes an intolerable strain.

74. Your rapporteur believes that he should disclose his bias. He believes that complete EMU is desirable but is not feasible in the foreseeable future. He also believes that a scheme of monetary cooperation and economic convergence is essential if the Community is to foster prosperity and democratic freedom, and to play a constructive role in the world trading and political community.

75. The concept of EMU was not explicit in the Treaty of Rome but surely it was implicit if there was to be a common market with free movement of labour, capital, goods and services.

76. The rapporteur trusts that members of long experience will bear with him if he looks into the past. They remember well the hopes that Werner engendered and the cruel disappointment that so quickly followed. But some members of this Parliament and of this Committee too were not so close in those days to the European scene.

77. In the Sixties it looked as though the Community had found the golden key to economic growth and full employment at a rate of inflation modest enough to be tolerated.

78. Not only Germany, but France and Italy too enjoyed economic miracles and seemed to be developing an economic and even a political homogeneity. The road to European union looked straight and clear, though towards the end of the decade the storm clouds were gathering.

79. In 1968 there were rumblings under the Bretton Woods system which had provided reasonable stability in the post-War years.

80. It had two props: a strong US dollar acting as the major reserve and trading currency; and the will of participants to pursue responsible balance of payments policies.

81. The European Community at this stage was ready to enter the second long-term phase of its development. Members believed that the pursuit of monetary union would provide increased stability and make the final goal of political union possible.

82. The story of EMU begins at the European Summit of December 1969 with a decision to work out a stage by stage plan for EMU with the aid of the Commission:

83. A few months later, the Council set up an expert committee under Mr Pierre Werner, the Luxembourg Prime Minister.

84. Stage I of the Werner plan was to be achieved over 1971 - a coordination of short-term and budget policies. A start was to be made on tax harmonisation, a mechanism for medium-term financial support, and an agreement to restrict fluctuations among the currencies of Member States.

85. The Bretton Woods system broke down in August 1971, when President Nixon decided that the gold-dollar link could no longer be sustained in a world awash with dollars as a consequence of US inflationary spending on the Vietnam war.

86. Even so, the desire for stability remained and was registered in the Smithsonian arrangement in the December. Parities were re-aligned and the permitted range of fluctuations widened. It had been 1% on either side of a par value in terms of gods (2% in all). It was now 2.25% on either side (4.5% in all). The system was abandoned for a system of floating in 1973.

87. In January 1972, the Community was enlarged by the accession of Britain, Ireland and Denmark. The Treaty was, however, not to take effect for another year.

88. The first important step towards EMU was made three months later on 22 April, 1972 when member nations agreed to keep their rates within an agreed band of 2.25 per cent around the central cross rates.

89. The 'snake' agreement, as it was called, envisaged lines of credit among the participants and rules for the settlement of the debts involved.

90. Furthermore, members agreed to coordinate their economic policies and especially their monetary policies to the extent necessary to the smooth functioning of the arrangement.

91. Britain blithely joined the 'snake' on 1 May - but only seven weeks later pressures on sterling caused her to drop out. Just after the turn of the year, the Italians had to leave. The French stayed in till the beginning of 1974. They went back in 1975 but out again in 1976.

92. It was not considered remarkable that Britain should enter the 'snake'. Even in 1967, Mr Callaghan was writing in 'Le Monde' that an enlarged Community (i.e. containing Britain) could establish its monetary power which might finally lead to a common European currency. In this currency, Member States' currencies, including sterling, would be joined.

93. The commitment to EMU of the British government and the governments of the other new members was made in October 1972 at the pre-entry Summit in Paris in unequivocal terms. "The Heads of State or of Government", the communiqué said, "reaffirm the determination of the Member States of the enlarged Communities irreversibly to achieve the economic and monetary union, confirming all the elements of the instruments adopted by the Council, and by the representatives of the Member States on 22 March 1971 and 21 March 1972".

94. But though the Community accomplished its enlargement it failed in its "approfondissement". Stage II (1972-1975) of the Werner plan was to witness the joint preparations of economic policies, harmonisation of VAT and excise duties; currency fluctuations cut to 1 per cent and the Special Drawing Rights from the IMF to be managed jointly.

95. Stage III (1976-1978) was to see an EEC Central Banking System and Reserve Fund, free capital movement and the removal of tax frontiers. By 1980, currency parities were to be fixed and made immovable.

96. Of course, it never happened. The world monetary crisis blew the 'snake' out of its tunnel to become the instrument of a concerted float against the floating dollar. All that remains of the 'snake' is the Deutschemark linked to the currencies of some smaller countries.

97. The other main European currencies - sterling, the franc, the lira - are all floating independently. Many people see the 'snake', however, as the mechanism of the future. It is in preparation for an eventually broadened 'snake' that the Bremen proposals have been put forward.

98. It is essential that the Community should now learn from the errors and frustrations of the past.

99. Three years ago the Marjolin report[*] said : "Europe is no nearer to EMU than in 1969 ... national economic and monetary policies have never been more discordant, more divergent than they are today.

100. "Each national policy is seeking to solve problems and to overcome difficulties which arise in each individual country, without reference to Europe as an entity. The coordination of national policies is a pious wish which is hardly ever achieved in practice".

101. Marjolin ascribes the failure partly to unfavourable events (the international monetary crisis and the sharp rise in oil proces in 1973) both unforeseen and unforeseeable when the decision to create EMU was taken.

[*] The Tindemans report, the following year, did not stimulate movement towards EMU. Mr Tindemans consulted the Member Governments and recommended acceptance of the division between countries with stronger and weaker currencies. His ideas did not find favour because there was a general disinclination to accept a "two-tier" Community.

102. THE OTHER CAUSES OF FAILURE WERE LACK OF POLITICAL WILL AND OF UNDERSTANDING WHAT EMU REALLY MEANT. "AT GOVERNMENT LEVEL THERE WAS NO ANALYSIS ... OF THE CONDITIONS TO BE FULFILLED".

103. "It was just as if the governments had undertaken the enterprise in the naïve belief that it was sufficient to decree the formation of an EMU for this to come about at the end of a few years, without great effort or difficult and painful economic and political transformations".

104. THE CUSTOMS UNION MERELY REQUIRED GOVERNMENTS TO GIVE UP THE USE OF CUSTOMS DUTIES AND QUOTAS AS INSTRUMENTS OF NATIONAL POLICIES. EMU DEMANDS THAT THE INSTRUMENT OF ECONOMIC AND MONETARY POLICY SHOULD BE PUT AT THE DISPOSAL OF COMMUNITY INSTITUTIONS.

105. In other words, that macro-economic monetary and exchange policies should be no longer in the hands of national governments or the subject of merely national debate in national parliaments.

106. Marjolin says frankly that the common institutions would have to include:

(1) A European political power;
(2) A Community Budget of some weight;
(3) An integrated system of central banks.

These institutions "WOULD BE CALLED UPON TO FUNCTION IN A COMPARABLE WAY TO THOSE OF A FEDERAL STATE".

107. He does not believe that European unity will come in small steps. He is very near the concept of the "great leap". He speculates on the need for "a radical and almost instant transformation, coming about after long discussions but giving rise at a precise point in time to European institutions".

108. But he is nearer Ortoli when he says that members together in cooperation with N. America and Japan must face the problems of inflation, massive payment deficits, unemployment "without asking too many questions about the future".

109. "For, if in the presence of these great dangers a minimum of unity and cohesion cannot be created, it does not seem very useful to pursue the discussion of EMU."

110. If, on the other hand, a common will emerges on urgent concrete problems, Europe will reach a situation in which the grand designs are once again conceivable.

111. Since M. Marjolin wrote, some, though not enough, progress has been made in the conquest of inflation and towards coordinated economic policies. And the dialogue with the US and Japan continues.

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THE ROAD TO BREMEN

112. As both Müller-Hermann and Ortoli are concerned with the pre-union phase and with a remedy for our present discontents, and as they are taking similar though not identical routes, they can profitably be studied together.

113. Both of them agree that EMU is not an immediate possibility. Müller-Hermann regards a return to fixed exchange rates as a distant prospect.

114. Ortoli implies the same thing when he says that the necessary transfer of significant functions from the nation-states to the Community cannot be achieved in the near future. It is, however, essential for Member States to prepare the way to that goal.

115. On convergence, Müller-Hermann says that the Council's proposals on this subject made in 1974 and 1977 should be implemented. The stronger countries should help to reduce the inequalities in the Community. And the recipients of aid should make good use of it by dealing with their inflation and their external deficits.

116. Ortoli expresses similar ideas when he says that convergence implies countering inflation and achieving greater stability in external balances and exchange rates.

117. Both believe that it is essential to boost demand and pave the way for a return to sustained growth to improve employment.

118. Ortoli points out that convergence requires neither identical national policies nor equal performances.

119. The first step, says Ortoli, towards fuller control of demand is to coordinate short-term economic policies.

120. Both are agreed on the need to develop an industrial and commercial structural policy and to shun the temptations to withdraw into protectionism.

121. There is a difference in emphasis on current policy. Ortoli calls attention to the positive influence of the Commission on iron and steel and the need for Community intervention in shipbuilding and textiles.

122. Müller-Hermann says cautiously that in view of the crises in these industries the Community needs to define its position in the world. It must not retreat into a defensive sectoral policy.

123. Both are concerned about industries of the future. Müller-Hermann is thinking in terms of research and development, Ortoli sees the Community having a role as an economic power in industries based on advanced technology.

124. The sections on energy presented by both are rather thin. Müller-Hermann demands a coordinated policy on the development of new resources and on the more economic use of resources to be worked out by 1982.

125. Ortoli is concerned to ensure adequate investment, a policy for nuclear and other energy sources and "a true common market for energy".

126. On employment, Müller-Hermann demands social compensation to cope with the strains on the social consensus which can be caused by any form of self-discipline in any country. This statement requires some amplification.

127. The Commission will propose a minimum threshold of social protection, joint outline provision on workers' rights, security of employment and worker participation.

128. Müller-Hermann underlines the need for more participation in management decisions and for better training.

129. <u>All the foregoing must be regarded as the necessary economic action to support a policy of monetary cooperation</u>.

130. Müller-Hermann says that a common policy on currency is essential and he regards the 'snake' as the future corner-stone of monetary union.

131. Both the Commission and the Member States outside the 'snake' should be brought into discussions with a view to closer alignment (the Bremen proposals have overtaken this demand).

132. Ortoli proposed that the first objective must be to integrate all currencies within a single Community mechanism adapted to the capacities of each economy.

133. The rules of this mechanism should impel non-'snake' countries to conduct their exchange rate policies compatibly and in accord with their agreed economic policies.

134. There must be support for the countries with the greatest economic difficulties.

135. The Müller-Hermann proposals are in the same mood. They suggest that further consideration should be given to the Duisenberg proposals for target currency zones and a set of rules for floating (see Chapter IV).

136. There should be stricter supervision of money supply policies and eventually binding arrangements to prevent the inflationary financing of budgets. He calls too for new impetus to be given to the European Monetary Cooperation Fund.

137. Ortoli said the Commission was to study the uses of a parallel currency (see Chapter IV) and proposed the extended use of the unit of account.

138. All these proposals enter into the Bremen brief.

139. On the regional problem, the Müller-Hermann resolution asks for increases in the Regional and Social Funds. But the resolution does not establish the vital link between the reduction of regional disparities and progress towards EMU. Ortoli says that the Community could reduce internal imbalances by action on regional and other policies.

140. Though the requirements will be well below those of a federal state, no progress towards EMU can be made without transferring larger reserves to the Community.

141. Both look for progress towards the single market. Müller-Hermann goes further than Ortoli in wanting a common company law and competition law.

142. Ortoli believes that important differences would remain in commercial, social and tax legislation.

143. Both agree on the need for tax harmonisation, especially on VAT (excise duties too, the Commission adds). Measures to abolish fiscal frontiers should be decided at the end of the Five Year Programme.

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THE BREMEN OUTLINE

144. The proposals made at Bremen were of great importance. They were to study ways of stabilising currencies in Europe by creating a system of strict exchange relations, the establishment of a well endowed pool of reserves and the creation of a reserve currency based on the European unit of account.

145. The Council stated that it regarded the creation of a zone of monetary stability as a highly desirable objective. It instructed the finance ministers to draw the guidelines of such a scheme for the competent Community bodies to elaborate by 31 October.

146. Studies would be undertaken of the action needed to strengthen the economies of the less prosperous members in the context of such a scheme.

147. The Council seem to have faced the fact that if the errors of the original 'snake' are not to be repeated, if in fact the weaker members on this occasion are going to be able to stay in the system, politically acceptable ways will have to be found of bringing inflation rates into closer convergence as well as of strengthening the weaker economies.

148. The 'snake' countries stated that the 'snake' itself was not going to become laxer. And an annex to the communiqué said that exchange rate management under the new system should be as strict as that of the 'snake', although countries outside the 'snake' might opt for a time for somewhat wider margins around the central rates.

149. In principle (whatever that may mean) interventions would be in the currencies of participating countries and changes in the central rate would be subject to mutual consent.

150. The Ecu would be at the centre of the system and would be used as a means of settlement between EEC monetary authorities.

151. The initial supply of Ecu's (for use among Community central banks) would be created against the deposit of US dollars and gold (amounting to 20% of the stocks currently held) and of a matching quantity of the currencies of Member States.

152. Two years after the start of the scheme, the existing arrangements and institutions should be consolidated into a European Monetary Fund.

153. The support for the scheme seems to have been universal but less than wholehearted. Not enough has yet been revealed and not enough has been decided for judgment to be passed. The economic side of the summit was buried under the monetary proposals.

154. In the end, a lot may turn on the concurrent studies that were put in train of the action needed to strengthen the economies of the less prosperous countries and presumably the Mediterranean applicants for membership.

155. Some members reflect the belief, expressed by Mr Müller-Hermann and Mr Ortoli, that progress towards economic union must be made alongside progress towards monetary union.

156. There is no doubt that real advantages would flow from the achievement and sustenance of a zone of monetary stability. When currencies are as unstable as they are, it is hard for investors to act with confidence.

157. It must, however, be recognised that the instability of European currencies derives from the differential policies of member countries. If currencies are to be less unstable, it means that economic policies will have to be less dissimilar.

158. The coordination of monetary and economic politics called for by the Commission will be essential if the zone of stability is to be achieved.

159. This raises the question of whether the political will for such coordination really exists. If it does not, if the not very long step to EMS cannot be taken, then the idea of an eventual leap to EMU had better be forgotten.

160. Political will can be as easily sapped by despair about the possibilities of the reflationary approach to growth as by a reluctance rigorously to curb inflation.

161. Policies of fiscal conservatism and strict financial discipline must be recognised as carrying as many risks as the opposite policies. If they induced recession and left industry with the onus of re-structuring, the demand for protection might well prove irresistible.

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CHAPTER II

ANALYSIS OF MR JENKINS' LECTURE

FULL MONETARY UNION

162. Mr JENKINS' major contribution to the subject of EMU was made in his Jean MONNET lecture at Florence in October 1977. This was amplified in his two speeches at the Plenary Session of the European Parliament on 17 January 1978.

163. Mr JENKINS' object at Florence was to re-awaken interest in the concept of Monetary Union which he found 'immobilised in scepticism' following the demise of the Werner plan.

164. Mr JENKINS' contribution has all the merits of a good lecture. It is elegant and persuasive, a calculated enticement to debate. It is not an exhaustive treatise.

He is trying to revive faith in the concept of EMU in an age very different from the one in which it first appeared. And he argues, in a bold paradox, that the very ills that killed it - inflation and monetary disorder make its revival essential.

165. Mr JENKINS chooses to refer only to Monetary Union, not to Economic and Monetary Union. Monetary Union embraces Economic Union, though Economic Union itself may not require Monetary Union.

166. And because he is engaged on a revivalist mission he has much more to say about the prospective benefits of MU than about its apparent cost in national pride and sovereignty. The sceptics can be trusted to restore the balance of the argument!

167. The President is not one of those old True Believers who lament a Community that, they fear, is in decline and decay.

168. The Community, he reminds us, has three major functions and there is activity and promise in two of them. It stands for a certain type of democratic and political society (as the Mediterranean applications bear witness). And it stands for a political entity to deal with a wide range of external relations.

169. Its third function is to provide a central economic mechanism and it is here that the weaknesses are conspicuous.

170. Mr JENKINS fears that if these central weaknesses continue, the external cohesion of the Community may not be kept. Faced with the strains of enlargement, the Community must either strengthen its sinews or halt its progress so that it never becomes anything greater than a loose customs union.

171. He insists that Europe cannot back into MU by acts of mere co-ordination. MU can evolve; but evolution goes both gradually and in jumps. Europe, he suggests, should prepare for the day when the eventual leap has to be taken. This is by no means an idiosyncratic view of the President. It is held by a number who have seriously thought about the problem of achieving full MU.

172. He demands that we now take a fresh look at MU and face the new arguments, needs and approaches.

THEY GO TO THE VERY HEART OF OUR CURRENT PROBLEMS OF UNEMPLOYMENT, INFLATION, AND INTERNATIONAL FINANCING.

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THE SEVEN ARGUMENTS

173. Mr JENKINS adduces seven arguments in favour of MU. Before deploying them, he points out that basic to his case is the ineluctable internationalism of Western economic life. Even the best national economic policies have their limitations.

This is accentuated by the oil crisis. It confirmed that the old international monetary order had come to an end; and it provided a new hazard for the vulnerable European economy, an international liquidity, massive, badly distributed, and largely uncontrolled.

ARGUMENT ONE

174. MU favours more efficient rationalisation of industry and commerce than could be achieved under a mere customs union.

175. MU reduces, as between Member States, exchange rate risks and the uncertainties of inflation.

ARGUMENT TWO

176. We should create a major new international currency. It would be a joint alternative pillar of the world monetary system.

177. The Community would thus be relieved of short run balance of payments problems. It could restore a poor trading position by dropping its currency a few points.

178. The economic expansion of member-nations today is checked by balance of payments problems. With MU such constraints would be largely removed.

179. BUT THERE WOULD HAVE TO BE UNIVERSAL DISCIPLINES ACHIEVED BY WHAT MR JENKINS DELICATELY CALLS 'RE-LOCATING THE LEVEL OF CERTAIN ECONOMIC POLICY POWERS'.

180. As Mr JENKINS told Parliament MU would involve 'a significant transfer of power from member governments to the Community'. This transfer would be 'limited but significant ... Two of what are generally regarded as the more important functions of a modern government - control over the exchange rate and control over the money supply - would be exercised by central Community institutions instead of by governments'.

181. With MU Europe would be able to combat world monetary disorder by re-designing a large part of the world monetary system. Europe has the political framework to do this and the Community is the right size and type of unit.

182. At the inter-continental level there is probably no alternative to floating rates; not a bad system when the units are widely separated geographically and in other ways.

ARGUMENT THREE

183. MU would lead to a common rate of price movement throughout the Community. And so it could establish a new era of price stability.

184. Of course the sources of the present inflation are diverse and include struggles over income distribution.

185. Imagine that a European Monetary Authority issues a single new currency.

186. The Authority controls the note issue and Bank money creation. It sets target rates of monetary expansion in the best European tradition. National governments would lose control over some aspects of macro-economic policy.

187. MU, though a radical treatment for inflation, is not a complete cure. We should still have competing claims on limited resources.

188. Wages across national frontiers must, of course, retain a reasonable relationship to productivity.

ARGUMENT FOUR

189. No medium term recipe for reducing inflation is acceptable if it does not benefit employment.

190. Unemployment is a problem of deficiency of demand. MU would lessen the constraints on our ability to cause a smooth and sustained increase of demand.

191. Though structural and monetary problems make it difficult to reduce unemployment, they do not justify defeatist policies to reduce permanently Europe's economic potential (say, by a big cut in working hours or very early retirement).

192. Present unemployment is not just a long and very low bottom to the cycle. We need a new impulse on an historic scale. THE NEEDS OF THE THIRD WORLD HAVE A MAJOR PART TO PLAY HERE.

193. In the past, two sources of growth have sometimes come together; one regional, the other world-wide.

194. To turn the tide of employment prospects we need:-

(a) Confidence that expansionist policies can be steadily pursued.

(b) Strengthened demand with a wide geographical base.

(c) Lower and more even inflation.

(d) To make sure that local difficulties do not develop into general crises of confidence.

195. But how do we get rid of the institutional weaknesses that have prevented us from applying these remedies?

196. The deterioration in the inflation - unemployment relationship has been well tracked by economists. So we must discard arguments based on obsolete theory:-

(a) That the objections to European integration are the differing preferences of Member States between inflation and unemployment.

(b) That floating exchange rates allow each country to solve its problems on its own and in its preferred way.

197. 'This is now how the world really is' comments Mr JENKINS. 'And we all know it'. (All?)

ARGUMENT FIVE

198. This is about the regional distribution of employment and economic welfare.

199. Today the Community bears no resemblance to the laisser-faire caricature of its critics. All Member States, for example, spend large sums of public money to get a more even distribution of jobs and national wealth.

200. In the Community, there is a financial battery firing on the right targets. But it is a battery of small guns - The Regional and Social Funds, the European Investment Bank, The Agricultural Guidance Fund and the Iron and Steel Community financial powers.

201. If Europe's aim is MU, then the weak regions must be insured against the aggravation by the system of their economic difficulties.

202. This insurance provides an advantage for the stronger regions. For it secures a more stable and prosperous market.

203. We must take a realistic view about the convergence of economic performance. Regional differences in living standards cannot be dealt with drastically.

ARGUMENT SIX

204. MU implies a major new authority to manage the exchange rate:-

It would manage the external reserves. It would manage the main lines of the internal monetary policy of the Community.

205. Can MU be reconciled with the desire for less centralised government? 'Yes' Mr JENKINS answers 'but monetary policy can be decentralised only to a very limited extent'.

206. Public expenditure is a different case. It now equals half of GNP - and this requires multi-tiered government of which the Federal model is only one of several possibilities. Europe must be built on the basis of our late twentieth century nation states.

We must give to the Community only those functions which will deliver better results.

207. In most Member States welfare expenditure equals twenty-five per cent of GNP. So there is no need to develop Community expenditure on a traditional federal scale. What makes sense for Europe is to take central decisions where:-

Intercontinental bargaining power is required.

Research and development offer economies of scale.

Industrial policies which require economies of scale such as electronics and aerospace.

Industrial policies required to deal with excess capacity - Steel, Textiles, Ship-building, etc.

Strategic interests (e.g. energy).

Financial policies to support the maintenance of regional balance.

208. Mr JENKINS quotes Sir Donald McDOUGALL's report. The Community's present expenditure is 1% GNP. Substantial progress towards MU could be made with two to two and a half per cent GNP. Definitive MU is feasible at a level of five to seven per cent GNP.

209. These are large sums and they would have to be built up by the transfer of expenditure from national budgets. Classical federations, however, often take twenty to twenty-five per cent GNP.

210. Yet the political implication would be great putting monetary policy on a European level would be as big a political step as was taken when the Community was originally set up.

ARGUMENT SEVEN

211. The creation of MU would take Europe over a political threshold and would require a leap to do so. The President believes we must give our people an aim beyond the immediately possible, following M. MONNET's dictum that politics is the art of making possible tomorrow what may seem impossible today.

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CHAPTER III

1. ANALYSIS OF THE MÜLLER-HERMANN RESOLUTION AND THE ORTOLI PROGRAMME

MÜLLER-HERMANN RESOLUTION - INTRODUCTION

The Müller-Hermann resolution welcomes the Ortoli programme to revive EMU and runs parallel to it.

This resolution is optimistic. It rejects the widespread apathy and current resignation. It expresses the belief that the Community's difficulties - inflation, unemployment, economic stagnation and external deficits can be overcome.

"At the same time positive progress - if only in stages - towards EMU can be achieved by means of careful and forward-looking coordination of Community measures; not by a plethora of separate independent actions".

The Müller-Hermann resolution says plainly: "A return to fixed exchange rates is no more than a distant prospect".

It welcomes the statement made at the summit of industrialised nations in May: "Our most urgent task is to create more jobs while continuing to reduce inflation".

Enough freedom for market forces must be provided, says Müller-Hermann, if the climate is to favour economic growth.

And the investment needed to check unemployment requires confidence, higher yields on capital and high consumption.

THE ORTOLI PROGRAMME - INTRODUCTION

The document begins with a recognition that since 1972 EMU has been stagnating and the intermediate objectives have not been achieved.

The crisis which followed the rise in oil prices has accentuated the differences within the Community. Between 1974 and 1977 inflation has ranged from 25% to more than 100 per cent. Unemployment now stands at six million.

The crisis has taught that the machinery of cooperation has to be set up before the difficulties arise.

To deal with the new situation, Member States have followed their own policies. They have under-estimated both their own independence and the scope of joint action.

The crisis provides additional reason for achieving progress towards EMU. Member States are highly interdependent. Each member country sends more than half its exports to its partners in the Community.

The Community could be weakened by the addition of Greece, Portugal and Spain unless progress towards EMU had been made in the meantime.

Two approaches to EMU were envisaged in the past. The first was gradually to improve the coordination of economic policies and iron out structural and regional imbalances. The second was to transfer significant economic and monetary functions from the nation states to the Community.

The first approach towards economic coordination must have a clear ultimate goal. The second objective cannot be achieved in the immediate future.

The Commission now propose action to make simultaneous progress towards both goals in the immediate future. Member States must prove their determination by taking practical measures to prepare the way for eventual full union.

The Commission proposes a Five Year Action Programme. Each year the details of the programme for the next 12 months would be spelled out.

At the end of each year, the European Council would assess the results and consider the Action Plan for the next year.

(Müller-Hermann Resolution)

CONVERGENCE

The Müller-Hermann resolution aims to reduce inequality in the Community. Those countries with strong currencies and economic potential must provide resources; and those countries receiving aid should make good use of it by dealing with their inflation and their external deficits. (The coordination of national budgetary policy is crucial to the process of integration, especially on the size of deficits and their financing). It argues that enough freedom for market forces must be provided if the climate is to favour economic growth.

The investment needed to check unemployment requires confidence, higher yields on capital and high consumption.

Thus demand should be boosted and national reflationary measures should be taken though they would vary from country to country.

In view of the divergent cost and price trends in Member States, it will be possible only in the long-term to define a common economic policy for all Member States.

However, the Council's statement in 1974 on the need for the convergence of policies should be implemented.

And so should the Commission proposal of October 1977 on improved coordination of policies. A standard forecasting system would help this.

(The Ortoli Programme)

CONVERGENCE

The first aim is to get lasting convergence among the economies of Member States. This implies (1) countering inflation, (2) achieving greater stability in external balances and exchange rates and (3) a return to sustained growth to improve employment.

The objective of convergence does not imply that national policies must be identical or that performances must be equal.

It does imply that Member States should agree on priorities. First priority should be given to countering inflation.

Coordinating short-term economic policies is a step towards fuller control of demand. This effort must be based on extending the present machinery of coordination in budgetary, monetary and exchange rate areas. Each Member State should observe the objectives set.

(Müller-Hermann Resolution)

INDUSTRY

Small businesses, which adjust most easily to changes in demand, require incentives and technical know-how.

Industries for the future require particular Community efforts in development and research.

Provision for these needs should be made by the budgets of both the Community and Member States.

Neither Member States nor the Community must withdraw into protectionism, for we ourselves are heavily dependent on exports; and because of our enormous economic potential we bear heavy responsibility for the development of the world economy.

Thus the Community external policy must be amplified and the GATT supported.

But the opportunities GATT provides against dumping and discrimination must be fully used.

In view of the crisis in steel, textiles and shipbuilding, and the increasing competition from the Third World countries, the Community needs to define its position in the world. Yet it must not retreat into a defensive sectoral policy.

A Community industrial and commercial structural policy must be developed both to encourage the growth industries and help the economic sectors which are in danger.

ENERGY

By 1982 there should be a coordinated policy on the development of new energy resources and the more economic use of energy.

(The Ortoli Programme)

INDUSTRY

The structural changes in industry needed to maintain competitiveness will have to be made in a climate less favourable to growth and increased employment.

The Community can help to work out a strategy of sectoral change based on an analysis of the industries as they are and as they may foreseeably develop.

This involves ensuring a better exchange of information among Member States; checking that developments are in line with macro-economic targets; forestalling the difficulties in a given sector of changes in demand.

One Commission duty is to prevent purely defensive reactions in Member States dealing with the industries worst hit by the crisis.

A good example of the Commission's positive influence is its action in the iron and steel sector. Shipbuilding and textiles also call for Community intervention.

In both the industrial and services sectors, there are "growth industries". In the medium-term the expansion of energy, telecommunications, data processing, electronics and aircraft, will support economic growth and employment.

The Community must equip itself to assume its role as an economic power in industries based on advanced technology which need the resources and the markets of a whole continent. The Commission will report on the problem in July.

ENERGY

An energy policy for Europe is essential to ensure that there is adequate investment in energy projects.

It is necessary to lay down guidelines on energy saving; to develop a policy for nuclear and other sources of energy: to establish a true common market for energy; to participate in the world dialogue.

This programme will improve employment since it will speed up the return to growth and facilitate structural change. It must be backed up by a social policy providing support for Member States' efforts to create employment in the industries with a future potential.

(Müller-Hermann Resolution)

EMPLOYMENT

Social compensation is needed to cope with strains on the social consensus which can be caused by any form of self-discipline in any country.

Workers' and industrial organisations, Parliament and governments must all promote stability and safeguard jobs.

There must be broader participation in asset formation; better training of workers; more participation by workers in management decisions.

Working conditions must be further humanised and social security extended.

CURRENCIES

A common policy on currency is essential. The 'snake' is the future corner stone of monetary union. A return to a fixed exchange rate is no more than a distant prospect yet the return to fixed rate is still a Community task.

Both the Commission and Member States outside the 'snake' should be brought into its discussions with a view to closer alignment.

The Community should draw up rules for foreign exchange policy which each Member could eventually approve.

Further consideration should be given to the Duisenberg proposals on target zones and rules for floating.*

The recent increase in medium-term currency support is welcomed, but loan conditions should be controlled more stringently.

There must be stricter supervision of the money supply policies of Member States: eventually there must be binding arrangements to prevent the inflationary financing of budgets.

Money supply should be allowed to expand with the potential increase in production and the unavoidable rate of inflation.

Finally, there is a call for a new impetus to be given to the European Monetary Cooperation Fund. When Member States are dealing with the fluctuation of exchange rates in their countries, EMCF should be the coordinator.

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* See Chapter III

(The Ortoli Programme)

EMPLOYMENT

The Community must develop a joint strategy for improving wage and salary ratios. The Commission will propose a minimum threshold of social protection; joint outline provision on workers' rights; security of employment; worker participation.

CURRENCIES

There must be greater cohesion among European currencies. The 'snake' is ready to take back those currencies which had to leave it.

But the first objective must be to integrate all currencies within a single Community mechanism adapted to the capacities of each economy.

The rules of conduct of this mechanism should impel the non-'snake' countries to conduct their exchange rate policies compatibly and in accord with their agreed economic policies.*

There must be support for the countries with the greatest difficulties and dissuasion from falling back on independent remedies.

The Commission is to study the uses of a parallel currency.* It might be useful to extend use of the European Unit of Account to international capital markets and to some long-term international contracts;

The resources of the EMCF should be increased so that it might contribute to the management of exchange markets.

There should be an increase over the next few years of financial resources avilable to the Community for use in areas where it might get better results than the Member States would get.

The Commission will make proposals to promote the freedom of capital movement in parallel to measures for achieving economic convergence.

One of the major objectives is the gradual elimination of MCAs.

The last barriers to full exercise of the right of establishment should be removed over the next five years.

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* See Chapter III

(Müller-Hermann Resolution)

POLICIES IN OTHER FIELDS

The Regions

The trend to regional disparities can be halted only by speeding up regional development. Both the Regional Fund and the Social Fund should be increased and the Social Fund used more often in a regional context.

The EIB should mobilise more funds for regional development and an institution should be set up alongside to help SMUs.

Single Market

To remove the last obstacles to a uniform common internal market, new efforts should be made to reach certain goals by 1982.

These goals include:- common company law; common competition law to counter the trend towards concentration; far-reaching harmonisation of taxation including VAT; coordinated policy on more economic use of energy and the development of new energy resources.

Harmonising Taxation

By 1982, there should be a far-reaching harmonisation of taxation, especially value added tax.

(The Ortoli Programme)

POLICIES IN OTHER FIELDS

The Regions

The Community could reduce internal imbalances by action on regional, social, industrial and energy policies.

The requirements to reduce these imbalances will remain well below those of a federal state. No progress can however be made towards EMU without transferring larger reserves to the Community. This should not raise public expenditure in the member countries.

Single Market

The Community look for progress in establishing a single market. The common market would not however become wholly comparable to the national markets. Important differences would remain in commercial, social and tax legislation.

The unity of the market would prevail over national law and practices which would otherwise distort price relationships.

Harmonising Taxation

A special effort will have to be made in tax harmonisation - particularly VAT and excise duties.

At the end of the five year programme the Community should decide on measures to abolish fiscal frontiers.

A common market for such services as insurance and banking should be established.

(Müller-Hermann Resolution)

CONCLUSIONS

The Müller-Hermann package is a useful, practical and fairly conventional set of remedies to deal with the present ills. Most of the remedies are already agreed, although some of them are not being adequately carried out.

Faced with current difficulties, the Community must have coordinated economic, budgetary and monetary policies. The inequalities among Member States and among regions must be tackled by the stronger helping the weaker and the weaker helping themselves. There must be a Community scheme to rebuild threatened industries and encourage new structural/industrial policy. The Community must not go in for sectoral protection but should do what GATT allows to be done to cope with dumping and discrimination. As for currencies, the Member States outside the 'snake' should discuss with 'snake' members in the hope of reaching closer alignment. There should be a Community code on exchange policy and the Duisenberg proposals for currency target zones should be studied again.

The Müller-Hermann resolution contains much that will win general acceptance. It does not, however, overtly recognise the need for governmental investment.

The resolution also suggests there is need for agreement on the percentage of national income and revenue for the social security system which should go to the national authorities.

Your rapporteur is puzzled by this and thinks it far-fetched to get agreement on such a matter. He sees no reason why such agreement should be thought necessary or desirable in the near future.

CONCLUSIONS

Here again, most of the programme will be generally acceptable even to those who will not go all the way to EMU. The programme is, of course, an evolution of the economic policies that were already being pragmatically followed. Now they are put in the context of the Commission's final goal of EMU. There is however a new emphasis on the need for monetary stability and an attempt to bring the 'snake' back into the centre of the picture.

2. ACTION FOR 1978

The Commission has already presented an action programme for 1978, the first year of the five year programme.

The Commission proposes:

CONVERGENCE

1. Progress made towards agreed economic targets must be monitored between ministerial sessions. This requires the coordination committee to be strengthened and its role made clearer.

2. Strengthening the coordination of short-term economic policies. The Council should refine its coordination procedures and put them into action. This applies especially to national monetary policies.

3. The return to monetary cohesion.

   (a) The strengthening of the 'snake'; further study of exchange rate changes; joint measures to restore a coherent pattern of exchange rate relationships.

   (b) The conditions for financial support; the proposals to revise short-term support quotas; monitoring the conditions on economic policies imposed when the Community gives financial support.

THE SINGLE MARKET

1. Free movement of goods and services.

   (a) Customs Union

   Decisions to be taken on the rules for cooperation between national customs' authorities and between them and the Commission; directive on procedures for the release of goods for free circulation; proposal for simplifying the Community transit scheme; proposal for easing the formalities involved in intra-Community trade in goods subject to VAT but to no other tax.

   (b) Removal of technical barriers to trade

   Directives already proposed on industrial products and foods should be adopted.

   (c) Common market for services

   The Council should decide on proposals already before it concerning stock exchanges, insurance and assurance.

(d) Public contracts

A directive on these comes into force on 1 July 1978.

(e) Liberalisation of capital movements

To be encouraged.

(f) Removal of monetary compensatory amounts in agriculture

The first step should be taken in accordance with the Commission's proposal when farm prices are fixed for 1978 and 1979.

2. Harmonisation.

(a) Tax Harmonisation

Preparatory work on harmonisation of VAT rates; decisions to be taken on proposals already before the Council on excise duties, direct taxation, tax evasion and duty-free allowances.

(b) Company Law

The Council should adopt the third (mergers), fourth (annual accounts) and sixth (prospectuses) directives.

(c) Merger Control

The Council should adopt the 1973 proposal.

STRUCTURAL POLICIES

1. Industrial change.

(a) Industrial Intervention

To continue in steel, textiles and clothing and shipbuilding sectors.

(b) Growth Sectors

Efforts to identify and develop these sectors.

(c) Community Instruments

Statistical studies to be carried out.

2. Energy Policy.

(a) Energy Independence

Proposals already made on energy savings and the development of energy sources in the Community should be adopted.

(b) Common Energy Market

Proposals for encouraging the use of coal in power stations should be adopted; new communication to be made on oil refining policy.

(c) Financial Instruments

Lending operations under Euratom to be increased; a new financial instrument to be used to increase the incentive to invest in the energy sector.

3. Agricultural Structural Development

Proposals have been made to promote the structural development of farms and to stress that the structural policy must make greater allowance for regional disparities.

4. Regional Policy

The Council should act rapidly on proposals already made for coordinating national regional policies, strengthening the role of the Regional Policy Committee, assessing the regional impact of other regional policies and improving the operations of the European Regional Development Fund.

5. Investment Policy

(a) Investment aid policy

Commission to evaluate the analysis of general investment incentives.

(b) Investment in non-member countries

Council should discuss a proposal made about the promotion of investments in developing countries and the guarantees needed to protect them.

(c) Public investment

The Commission will draw up an outline of the kind of investment in infra-structure the Community needs.

SOCIAL POLICY

1. Employment Policy

(a) Employment of Young People

A proposal to provide aid for the creation of jobs for young people.

(b) Labour Market

The Commission to seek to expand cooperation among Member States in developing national institutions designed to improve the balance between the supply and demand of trained workers.

(c) Economic and Social Problems Linked to Employment

A systematic approach to be worked out.

2. Incomes and Working Conditions

Council should take decisions on proposals already before it. Other proposals to be made by the Commission include:

(a) Income Scales
Reinforcement of action to reduce inequalities.

(b) Improved Working Conditions
Health and safety at work and work-sharing.

3. Social Protection and Social Security

Commission to pursue its efforts to lay down common minimum social protection rules to cover the major risks.

4. Worker Participation

Commission to continue its efforts to organise conferences bringing together the two sides of industry and the Commission. Proposal to be made on the obligation of groups of undertakings to inform and consult staff or their representatives.

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CHAPTER IV

TARGET ZONES

The case for creating a system of Target Currency Zones rests on two suppositions. It would be a way of getting minimum monetary stability in the Community and would require and inspire better coordination of economic policies. And it would possibly be a cautious step towards EMU.

Such a move is reported to have been broached at the European Council meeting at Copenhagen in April; and to be due for further consideration when the European Council meets at Bremen in June, as a prelude to the summit of seven leading world economies at Bonn in July.

Five problems which are damaging the world economy have been identified:

- Low growth
- Currency instability
- The trend to protectionism
- Over-dependence on imported energy
- Inadequate flows of stable long-term capital aid from surplus countries to deficit countries (including many in the developing world).

The hopes of two years ago that the industrialised world was coming out of the recession which followed the increase in oil prices have been disappointed. Progress there is; but it is sluggish.

At the same time disillusionment with floating has grown. The belief that floating would allow expansionary policies to be followed without strain on the balance of payments has been sadly discarded.

And disillusionment has grown with what economic progress might be achieved by independent national governments. As Mr Denis Healey, British Chancellor of the Exchequer, said in his budget speech on 11 April: "If we are to solve this country's problems we need to take action on a world scale because no single country can lead the world out of its difficulties. Indeed, no single country can by itself solve even its own problems".

Within the Community it is all too evident that the current economic divergence and the monetary instability are politically and economically damaging and possibly even dangerous.

The monetary crises of recent years and the failure to achieve sufficiently coordinated economic policies have shaken confidene in the future, discouraged investment and inspired fears that the hardest hit countries might not be able to maintain their liberal obligations under the Treaty.

The temptation is to advocate a dash for discipline, a repentant return by the defaulting nations to the 'snake', with its obligation on members to keep their exchange rates within a band of 2.25 per cent.

But the 'snake' failed in its basic object to ensure stable relationships among the four big European currencies: the Deutschemark, the Franc, the Lira and Sterling.

It failed because rates of inflation varied from member country to member country and countries did not or could not adjust their domestic economic policies.

Pressures developed on exchange rate relationships. Britain was forced to leave the 'snake' within weeks as the pressure on Sterling mounted. The Lira and Franc eventually found the going too hard for them.

It is, your rapporteur believes, unlikely that the Member States outside the 'snake' could yet contemplate returning to such strict restraints. There is little likelihood that the necessary convergence of inflation rates, productivity rates and cyclical developments can be achieved in the near future.

There are two possibilities: one is of broadening considerably the 2.25 per cent band and loosening the discipline. It has even been suggested that Member States in difficulties could be allowed to float temporarily outside the 'snake'. These proposals do not look acceptable to the present members.

The other favoured possibility is that a looser general arrangement might be made to which the 'snake' might be a party while retaining its habitual internal discipline.

The reward of accepting this obligation would be help for each country from the other member countries in carrying out policies to keep it within the zone.

This idea appears to have been born out of the rules for managed floating proposed by the IMF, of which Mr Duisenberg was once an official.

Of course the system provides for changes in the target zone after consultations with the other member nations and agreement that change is desirable.

The time is surely ripe to re-examine the proposal for Target Zones put up to the Council of Ministers by Mr Duisenberg, the Netherlands Minister of Finance, in July 1976.

The proposed system was for each member country to be set a target zone defining the upper and lower limit for its exchange rates.

Each country would refrain from POLICIES and INTERVENTIONS that would cause the exchange rate to rise or fall out of the target zone.

The virtue of the scheme is that it is evolutionary and could start by insisting that member countries accept only minimum constraints.

The Duisenberg proposals were buried at the finance ministers' Council in Brussels in March 1977. The inflation rates were too wide apart. But they have come closer and the system may now be feasible.

PARALLEL CURRENCY

There is a less conventional scheme designed to lead towards monetary integration - a proposal for a parallel currency.

The central idea is the creation of a new currency under the control of a common institution, issued by a new official bank.

There are a number of variants of the proposals. Sometimes the new currency is called the Europa and it is a convenient name.

The Europa, it is suggested, would circulate alongside national currencies. At first it should be used only for official transactions. Its use should be gradually extended and eventually it would become the sole currency of Europe replacing all national currencies.

The proposal becomes highly technical the moment the broad concept is left behind. It is one of those subjects for which the Committee requires the evidence of experts - enthusiasts and sceptics.

One of the suggestions is that nominal exchange rates of Community currencies should be evolved in terms of the Europa itself. And the Europa could be defined as the EUA - the basket European unit of account.

It is also proposed that the Europa should have the role of a primary reserve asset. Member countries would be credited with Europas at the European Monetary Cooperation Fund against the deposit of gold at market prices.

Thus it would develop as a counterpart of the SDR and gradually become both a reserve and intervention asset.

Then the Europa could be used in private credit markets. As long as it was a mere parallel currency, its use by a resident would be regulated by his country.

The position of non-residents should be under the surveillance of the EMCF.

Existing financial institutions of the Community should of course use the Europa and the EIB could play a key role.

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The rapporteur acknowledges his debt to articles by Dr T. Magnifico, chief adviser to the Banca d'Italia Rome; and C. J. Oort the Treasurer General, Netherlands Ministry of Finance.

ANNEX I

MOTION FOR A RESOLUTION (Doc. 496/77)

tabled by Mr MULLER-HERMANN, Mr KLEPSCH,
Mr NOTENBOOM, Mr RIPAMONTI and Mr DESCHAMPS

on behalf of the Christian-Democratic Group

pursuant to Rule 25 of the Rules of Procedure

on the revival of economic and monetary union

I Preamble

The proposal to establish an economic and monetary union made at the summit in the Hague in 1969 constitutes the most significant initiative in the process of Community integration. This objective must continue to be the focal point of the work of the Community's institutions.

The European Parliament has not missed a single opportunity of supporting efforts to achieve integration in economic and monetary fields. In particular, it has endorsed the Council's resolutions on the progressive realization of this union, as envisaged in the Werner Plan. It notes, to its regret, however, that despite the various proposals subsequently submitted by the Commission and despite the Tindemans report, insufficient progress has been made towards economic and monetary union. The same observation applies to the two Tripartite Conferences and the Fourth Programme on Medium-Term Economic Policy, which contains a large number of proposals, is associated only with the stage of realization.

The Community is at present contemplating further enlargement, a project which the European Parliament has endorsed on many occasions. It realizes that new responsibilities and considerable burdens will arise as a result of this enlargement, not only for the Community as a whole but for each individual Member State. In view of already existing Community problems and the specific problems of Member States the European Parliament feels that more progress should be made towards integration before any new Member States actually join the Community. The European Parliament therefore calls upon all the Community institutions to show a stronger sense of purpose by taking practical steps here and now to promote the achievement of European Union and in particular Economic and Monetary Union.

The European Parliament is alarmed to observe that the Community's economic difficulties, which are partly indicative of a state of crisis, are making the joint shaping of policies increasingly harder and encouraging countries to go their own way and adopt protectionist measures. This is contrary to the spirit and letter of the Rome Treaties. The European Parliament fully endorses the principles of a better international division of labour and a liberal trade policy based on fair reciprocal arrangements. It also urges that the Community make every possible effort in order to face the worldwide crises and to revive the economic growth in the worle to provide specially the third world with adequate opportunities of development, in particular by ensuring that its markets remain accessible to products from third world countries. The European Parliament realizes that the pursuit of such a non-protectionist policy by the Community would make the restructuring of its economy to adjust to future requirements a matter of the highest priority.

Special efforts in the field of monetary politics are necessary regarding the common agricultural policy and in view of the special responsability of the Community with its strong economic potential for the monetary order in the world.

In view of this twofold challenge the Community must recover its sense of unity and pursue a courageous and realistic policy. The European Parliament therefore welcomes the Commission's attempt in its 'Communication on the prospects for economic and monetary union' to the European Council of 5 and 6 October 1977 to revive economic and monetary union. It shares the Commission's view that the process of integration needs to be consolidated and vigorously continued.

The European Parliament therefore makes the following proposals in this resolution which relate to parallel action in the fields of economic and monetary policy. It hopes that the joint efforts of the Community's institutions will be crowned with more success in the future than in the past.

II

Towards a more positive policy for growth without inflation in the European Community

1. The declaration issued by the Heads of State and Government following their meeting in London on 11 May 1977 contains the following statement: 'Our most urgent task is to create more jobs while continuing to reduce inflation. Inflation does not reduce unemployment. On the contrary, it is one of its major causes.' In making this declaration the Community has set itself a clear joint objective. At the same time the content of the joint declaration provides justification for the assumption that common experiences will now lead to the drawing of common conclusions.

2. The European Parliament therefore calls on the Commission and the governments of the Member States to continue to combat inflation and to endeavour to maintain existing jobs and create new ones.

3. Community solidarity, so often invoked in the past, is faced with yet another test. The excessive imbalances within the Community must be purposefully eliminated if progress is to be made towards economic and monetary union. The European Parliament believes that this can be achieved only if the countries with fixed currencies and strong economic potential agree to aid measures and the transfer of resources and the countries with high rates of inflation and balance of payments deficits ensure, by making the necessary effort themselves, that this aid leads to their difficulties being overcome.

4. The European Parliament

- Believes that only a policy which gives enough freedom to market forces will provide the dynamism necessary to create a climate conducive to renewed economic growth;

- Sees a need for general policy measures of a regulative nature to enable industry, workers and consumers to plan for the future;

- Points out that the recovery of investment necessary to check unemployment presupposes the re-establishment of a climate of confidence, a return to higher yields on capital and increased consumption;

- Urges that efforts should be made to stabilize the production costs of undertakings and to boost productivity;

- Recommends that demand should be purposively boosted but feels that all measures to reflate the economy, which may vary in scope and nature from one state to another, should be taken in a concerted global concept;

- Recommends that specific incentives should be given to the tertiar-sector and to small business, - specially by bringing technical know-hows to their disposition - which adjust easily to variations in demand, and by reason of its numerous independent forms in the Community, ensures variety and at the same time offers the individual an opportunity of personal fulfilment;

- Feels that particular efforts should be made in development and research in industries of the future and to supply the necessary Community funds;

- Calls on the Council and Commission to make allowance for these requirements in framing the budgetary policy of the Community and that of the Member States, i.e. substantially to increase capital expenditure, especially in the economically weak regions, to increasing expenditure on development and research, to reduce the pressure of costs on industry by increasing investment capacity and profitability and by abandoning all measures which act as a disincentive to personal achievement.

5. The great strains placed on the social consensus by any form of self-discipline in any country are realistic only if they are accompanied by appropriate social compensation. Parliaments, and governments, workers and industrialists and their organizations must all be persuaded by

- broader participation in asset formation
- better training enabling workers to become more mobile
- the participation of workers in management decisions
- the humanization of working conditions and
- the extension and consolidation of social security systems

to take part in joint action to promote stability and safeguard jobs. All parties must realize that the reduction in the rate of inflation constitutes an effective means of increasing real incomes. Furthermore, governments of the Member States must make a contribution to the stabilization of costs by pursuing suitable fiscal policies.

6. The European Parliament feels it would be harmful if the Member States and the Community, which is itself heavily dependent on exports and, in view of its enormous economic potential, bears a large share of responsibility for development of the world economy, were to withdraw into a policy of protectionism.

In the opinion of the European Parliament

- the common external trade policy must be maintained and amplified;
- it is essential that the common external trade policy should, in accordance with the principle of reciprocity, bind all Member States of the General Agreement on Tariffs and Trade to uphold the principle of free access to markets and consequently to respect the role of competition as the main factor inducing greater prosperity. This implies the need for a non-protectionist trading policy towards both

developing countries and countries with other economic systems provided that comparable non-restrictive conditions are guaranteed by all parties concerned. The Community should use every opportunity provided within GATT to defend itself against dumping and discriminatory practices;

- it is of the utmost urgency, on account of the structural changes, which are evidenced for example in the current crisis in the Community's steel industry, textile industry and shipbuilding industry, that the Community define its position in the world, especially in the light of increasing competition from third world countries, and not retreat into a defensive sectoral policy;
- a comprehensive forward-looking industrial and commercial structural policy must be developed in order to facilitate the adjustment to future needs - which usually implies an increase in productivity - of economic sectors in danger and to encourage growth industries;
- expects the Commission, in the light of international fluctuations in demand and in the terms of competition, to produce an analysis of future prospects together with relevant conclusions.

III

Towards a more positive policy to promote the integration of economic and monetary policies and the elimination of regional imbalances in the Community

7. The European Parliament, aware that in view of the divergent cost and price trends in the Member States it will be possible only in the long term to define a common economic policy for all Member States, calls on the Commission to implement the Council's decision of 18 February 1974 on the 'attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community' and the proposals from the Commission of 5 October 1977 (COM(77) 443 final) for the improved coordination of the economic policies of Member States of the European Community.

Therefore, for the guidance of all those involved in the economic process a coordinated Community definition of the objectives and general terms of national economic policies is indispensable. A useful foundation for this could be laid by introducing a standard forecasting system over a period of five years in each of the Community countries.

The European Parliament welcomes the Commission's idea, expressed in its document of 17 November 1977 (COM(77) 620 final), of carrying out an annual check on results and possibly making adjustments, within the framework of a five-year action programme, in order to ensure that Community policy is brought into line with the necessary structural changes and that its objectives continue to be realistic.

All remaining obstacles to the creation of a uniform common internal market with complete freedom of movement for goods, services and capital should be eliminated. The European Parliament therefore calls for new efforts to achieve, by 1982,

- common company law
- common competition law to counteract an undesirable trend towards concentration and making mergers involving firms exceeding a given size subject to an approval procedure
- a far-reaching harmonization of taxation, especially Value Added Tax and
- a coordinated policy on the development of new energy resources and the more economic use of energy.

8. The European Parliament regrets that marked regional disparities still exist within the Community.

The European Parliament,

- Points out that this trend can only be halted by an effective regional policy conceived as a means of speeding up the development of particular regions and compatible with the industrial and commercial policy called for above;
- Recommends that in granting resources from the Social Fund greater account should be taken of regional policy considerations than hitherto especially to stimulate the entreprises in settling instructurally weak regions with a high rate of unemployment;
- Urges, therefore, that appropriations for the Regional and Social Funds should be increased and the activity of the European Investment Bank stepped up since this can specifically guarantee that the altogether welcome process of capital transfer will be effective;
- Considers it desirable for the European Investment Bank to mobilize more funds, through the recycling of capital, for regional development projects;
- Proposes that an institution should be set up - preferably alongside the European Investment Bank - to assist small and medium-sized undertakings by providing them with capital.

9. The European Parliament believes that the financial and budgetary policy of the Member States constitutes a crucial factor in the process of integration.

The European Parliament

- Advocates, therefore, the coordination of the Member States' budgetary policies, especially as regards the size of their deficits and their financing;
- Sees a need for agreement to be reached on the percentage of national income and revenue from the social security system which should go to the public authorities;
- Calls on the Council to ensure that jointly-established budgetary guidelines are attached to the draft budgets submitted to national parliaments;

IV

Towards a more positive monetary cooperation policy

10. A common monetary policy is essential if the lasting integration of the economic policies of the Member States is to be achieved.

The European Parliament takes the view that every time the governments of the Member States succeed in curbing inflation they are helping to avoid disturbances in the international monetary system and at the same time create favourable conditions for the realization of a common monetary policy enabling a lasting alignment of monetary parities.

The European Parliament

- Regards the continued existence of the currency snake, as the future cornerstone of monetary union, as absolutely essential;
- Is of course aware that a return to fixed exchange rates is no more than a distant prospect. The return to fixed exchange rates within the Community, however, is still a Community task which must not be neglected, especially in connection with the problem of farm prices;
- Considers it desirable for those Member States outside the snake and the Commission to be brought into the discussions held by those inside the snake with a view to closer alignment at a subsequent stage;
- Recommends that the Community should draw up a list of rules and obligations in the matter of foreign exchange policy which each of the Member States should eventually approve;

- Advocates further consideration of the Duisenberg proposals, which are based on the concept of rules governing floating and target zones for exchange rates;

- Urges that exchange rate policy should be regarded as a matter of common interest (Art. 1o7 EEC) and that it should be the subject of regular discussion - especially before any modification of exchange rates.

13. The European Parliament welcomes the decision taken at the last meeting of the Council of Finance Ministers to increase medium-term currency support and to extend the Community's power to negotiate loans. It urges that financial aid should be granted only on condition that the Member State adheres both to jointly-established general economic and monetary objectives and to specific instructions and that compliance with conditions is controlled more stringently in order thus to ensure greater convergence of economic policies.

11. The European Parliament is convinced that effective cooperation in monetary policy presupposes stricter supervision of Member States' money supply policies. Common principles and guidelines on money creation must gradually be defined and eventually made binding in order, principally, to prevent the inflationary financing of Member States' budgets.

The money supply should be allowed to expand at a rate reasonably consistent with the increase in production potential and with the unavoidable rate of inflation.

12. The European Parliament

- Calls for a new impetus for the European Monetary Cooperation Fund:
- States the principle that the monetary fund with Board of Directors must function independently but in the scope of the general economic policy;

- Urges that the monetary fund, which is administered by the governors of the central banks - acting independently in the context of general economic policy - establish priorities at Community level for monetary and credit policy, though harmonization need not initially be taken as far as complete standardization;

- Believes that this monetary fund should also be responsible for the clearing and coordination of intervention in the event of fluctuations of currencies of third countries;

- Urges the implementation of the Commission's proposals of 12 December 1974 which recommend the central coordination of Member States' monetary policies within the framework of the monetary fund.

V Conclusions

14. The European Parliament's proposals are guided by the belief that the Community's difficulties - inflation, unemployment, stagnant growth and balance of payments deficits - can be overcome and at the same time positive progress - if only in stages - towards economic and monetary union can be achieved only by means of careful and forward-looking coordination of Community measures and not by a plethora of separate and independent actions.

15. The European Parliament sees no reason for the resignation and apathy which have become so widespread. However, the citizens of the Community, and in particular its young people, would be entitled to feel disappointed if the responsible Community institutions - especially before the forthcoming direct election of the European Parliament - were to slacken their efforts to put the necessary measures into effect. The European Parliament recommends the Council and Commission to supplement their political efforts with a special action programme designed to make the Community's citizens even more aware than hitherto of their increasing geographical mobility and showing how national frontiers have been overcome in everyday life.

ANNEX II

MOTION FOR A RESOLUTION (Doc. 209/78)

tabled by Mr ANSQUER, Mr de la MALENE, Mr BOUQUEREL,
Mr BROSNAN, Mr BRUGHA, Mr COINTAT, Mr HERBERT, Mr INCHAUSPE,
Mr KASPEREIT, Mr KRIEG, Mr LIOGIER, Mr NOLAN, Mr POWER,
Mr RIVIEREZ and Mr YEATS
on behalf of the Group of European Progressive Democrats

with request for urgent debate
pursuant to Rule 14 of the Rules of Procedure

on economic and monetary union

The European Parliament,

1. Hopes that an overall and parallel approach will be adopted to all problems concerned with economic and monetary union;

2. Feels that the essential need to bring economic structures closer together can be met only by restoring financial equilibrium and implementing an ambitious regional policy;

3. Calls for the strengthening of the common policies and the rationalization of European budgetary options;

4. Considers it vital to establish a consensus on a rigorous monetary and financial policy, industrial policy guidelines, external discipline and a joint political will for a constructive dialogue with the social partners;

5. Considers that priority must be given to combating unemployment, particularly among young people;

6. Approves the gradual introduction of a European Settlements area, creating a haven of monetary stability;

7. Favours the joint management of Community resources through the European Monetary Cooperation Fund;

8. Urges that Community resources be mobilized more effectively by extending medium-term financial support and strengthening short-term monetary support;

9. Hopes that the international monetary system will be reformed in concert with the United States so as to put an end in particular to the present monetary free-for-all and the excessive issue of special drawing rights;

10. Recommends that Europe should participate in the setting up of a new world monetary system, combining flexibility with rigidity and based on a stable monetary standard reflecting the scale of international economic transactions;

11. Instructs its President to forward this resolution to the Council and Commission.

ANNEX III

OPINION OF THE COMMITTEE ON REGIONAL POLICY, REGIONAL PLANNING AND TRANSPORT

Draftsman: Mr A. DAMSEAUX

On 19 May 1978 the Committee on Regional Policy, Regional Planning and Transport appointed Mr DAMSEAUX draftsman of its opinion.

It considered the draft opinion at its meeting of 24 May 1978 and adopted it unanimously.

Present: Lord Bruce of Donington, chairman; Mr Nyborg, Mr McDonald and Mr Durand, vice-chairman; Mr Damseaux, draftsman; Mr Brosnan, Mr Delmotte, Mr Fitch, Mr Hoffman, Mr Jung, Mr Noé, Mr Schyns, Mr Seefeld and Mr Starke

INTRODUCTION

1. The process initiated at the Hague Summit in 1969 for the achievement of economic and monetary union, of which the Council resolution of 22 March 1971[1] on the attainment by stages of economic union in the Community marked the starting point, has been stagnating since 1972.

However, the Paris Summit in October 1972 reasserted the will 'to strengthen the Community by establishing an economic and monetary union'.

2. The monetary crisis further complicated by the oil crisis has been a key factor in slowing down this process.

The Member States have been forced to pursue 'their own independent policies, underestimating both the extent of their interdependence and the possible scope of joint action'[2].

However, in its communication on the prospects for economic and monetary union, the Commission states that 'in its development and through its attainment, the historic act of economic and monetary union could make a decisive contribution towards achieving the <u>common goal of stability and growth</u>'[3].

3. The search for solutions to monetary and external problems should not make us forget the <u>internal criterion</u> for economic and monetary union, i.e. the progressive elimination of the most important structural and regional imbalances in the Community.

4. According to the Council resolution of 22 March 1971, once economic and monetary union has been achieved, the Community:

1. Will constitute a zone in which persons, goods, services and capital can circulate freely without distortions of competition and without giving rise to structural or regional imbalances, and under conditions that will enable all those engaged in economic activity to function anywhere in the Community;
2. Will form a distinct monetary entity in the international system, with fully and permanently convertible currencies, the abolition of margins of fluctuation for exchange rates, and the introduction of permanently fixed parity rates - all of which are essential for the creation of a single currency - and a Community central bank organization;

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[1] OJ No. C 28, 27.3.1971.

[2] Commission: 'Communication on the prospect of economic and monetary union', Brussels, 17.11.1977, COM(77) 620 final, end of Chapter I(b).

[3] Same Communication, end of Chapter I(c).

3. Will have the economic and monetary powers and responsibility to enable its institutions to administer the union. To this end, the required economic policy decisions will be taken at Community level and the necessary powers vested in the institutions of the Community.

5. An adequate basic equilibrium must be established between the economies of the countries forming the economic and monetary union to provide these three essential elements of the union. But this equilibrium does not exist at present; the structural differences between the Member States' economies are too great and give rise to varying degrees of structural and regional imbalance in the Member States. Despite Member States' intervention policies, the difference in average per capita gross domestic product between the rich and poor regions of the Community became still greater in the period 1970 - 1975.

6. It should be recalled that the Council of Ministers stated that 'Whereas an effective policy on regional structures is an essential prerequisite to the realization of economic and monetary union', the Fund is intended '... to contribute to the correction of the main regional imbalances within the Community which are likely to prejudice the attainment of economic and monetary union' (Regulation establishing a European Development Fund, Article 6(1)).[1]

7. An attempt must therefore be made to determine the relations between the attainment of the various objectives of economic and monetary union and the elimination of the main structural and regional imbalances in the Community. We must also try to define the scale of the financial resources required in the Community to put an end to such regional imbalances.

A. Regional imbalances and the objectives of economic and monetary union

8. According to the Council resolution of 22 March 1971, the objectives of economic and monetary union are twofold:

- a monetary objective:
  fully convertible currencies and permanently fixed exchange rates;
- economic objectives:
  satisfactory growth, full employment, internal stability, reduction of structural and regional imbalances and external equilibrium[2].

An internal study by the Directorate-General for Regional Policy in the Commission of the European Communities dated 19 October 1971, on regional policy and economic and monetary union[3], although old, is of major methodological interest.

1 Regulation (EEC) No.724/75 of the Council of 18 March 1975 establishing a European Regional Development Fund, OJ No.L73, 21.3.1975, pp. 1 and 3.

2 Beginning of Chapter I of the resolution of 22 March 1971

3 Document XVI/137/71-F

We shall now consider, on the one hand, regional imbalances and the monetary objective and, on the other, regional imbalances and the economic objectives.

a) Regional imbalances and the monetary objective

9. The analysis given in the above study shows that the varying degrees of regional imbalance in the Member States affect their inflationary tendencies in different ways.

The value of their respective currencies thus tends to evolve unevenly. There is a glaring contradiction between the existing situation, with different regional imbalances from one Member State to another and the monetary objective pursued by the union.

The analysis shows that the factors of inflation, whether apparent or insidious, come to light:

- in the zones of concentration, mainly in costs;
- in the less-developed regions, mainly in demand.

(1) Zones of concentration

10. In the zones of concentration the factors of inflation are linked to the production factor price and the cost of infrastructures.

In periods of high demand, the production factor price tends to increase in zones of concentration where the most productive industries are generally located.

Increases in the production factor price tend to spread to activities in the same branch or to sectors without the same productivity growth potential and may have direct inflationary repercussions on prices or indirect repercussions in the form of consumption of own capital.

The effect also spreads to other regions because of the effect of intra-sectoral relations in terms of costs and prices and also in wages and salaries, which tend to become standardized.

11. Inflationary trends in the zones of concentration are however automatically corrected when production factors move in from less-developed regions, so that there is an increase in production capacity and services available if the immigrant workers have the necessary qualifications.

However, this immigration aggravates the problem of social infrastructure costs to the extent that infrastructures are already fully stretched in the areas of over-concentration. Further social investments may be needed because of inflation.

12. Inflation through the cost of infrastructures results from the fact that above a certain threshold, the marginal cost of social infrastructures exceeds the marginal benefits they provide.

In liberal economies, industrial undertakings and services tend to expand in regions that already have a certain level of economic concentration, enabling them to effect external savings.

Up to a certain level, this concentration of activity enables the public authorities to achieve economies of scale in infrastructures for which they are financially responsible (transport, schools, hospitals etc). However, at some point, because of over-concentration, the marginal social cost of infrastructures may exceed the marginal social benefits. Economies of scale no longer exist for the public authorities but there are external savings for the undertakings. Undertakings benefit only at the expense of the public authorities. If private undertakings were responsible for infrastructures, they would be unable to expand above a certain level of concentration.

To enable the zones of concentration to continue to develop economically, the public authorities carry out important infrastructural work whose social cost exceeds the social benefits. The price of land and civil engineering works (tunnels, viaducts etc.) constantly increases, necessitating loans at very high interest rates. The financing of such infrastructures (depreciation and interest) has an inflationary effect.

13. Zones of concentration are thus an immediate or potential source of inflation because the cost of infrastructures and production factors tends to spread to less-developed regions. Inflation is thus more likely in countries with the largest number of zones of concentrated economic activity than in those where economic activity is more evenly spread throughout the country. Steps must therefore be taken to discourage further concentration in zones where it is already excessive.

(2) Less-developed regions

14. Inflationary factors in the less-developed regions are linked to pressure of demand and the cost of infrastructures.

Information travels quickly in the different regions of the Community. Because of the 'emulation syndrome' the populations of the less-developed regions want to have the same standard of living as in urban regions. Demand is therefore high and if it is met without a correspondingly high level of production, it is financed by inflation.

This emulation syndrome is at the basis of wage claims in the less-developed regions where, however, average productivity in all sectors (agriculture, industries and services) is lowest.

15. As regards infrastructures, the less-developed regions are also the cause of inflationary tendencies since the cost of infrastructures (roads, schools, hospitals, etc) is not always commensurate with the benefits involved.

Where infrastructures are created without a correspondingly high level of productive activity, investments may cause inflation.

16. Regional development programmes are therefore needed to ensure consistency and coordination in industrial and infrastructural investments.

Implementation of such programmes in accordance with the plan drawn up by the Regional Policy Committee has always been regarded by the European Parliament as essential if aid is to be granted from the European Regional Development Fund to certain projects.

In paragraph 4 of its resolution of 5 July 1973[1], based on a report on regional policy by Mr Delmotte, the European Parliament:

- 'considers that this European sense of responsibility can only be created if regional development programmes are put in hand to ensure and control the sound management of resources'.

In a fundamental resolution of 21 April 1977[2] based on the Delmotte report on aspects of the Community's regional policy to be developed in the future, the European Parliament:

- 'considers it essential to initiate development programmes with a view to ensuring such coordination, concentrating resources and checking the effective use of aid'.

17. The above shows that structural and regional imbalances help to create or aggravate inflationary tendencies.

The greater the regional imbalances in an economic sector the greater the likelihood of inflation. The relative intensity of regional imbalances varies considerably from one Member State to another, affecting the value of their respective currencies in differing degrees and constituting a major obstacle to the achievement of the monetary objectives pursued by the union.

[1] OJ No. C 62, 31.7.1973, p.33

[2] OJ No. C 118, 16.5.1977, p.118

b) Regional imbalances and the economic objectives

18. The resolution of 22 March 1971 on economic and monetary union lays down four objectives, those normally pursued by any economic policy: satisfactory growth, full employment, price stability and external equilibrium. We shall now consider the relationship between each of these four objectives and regional imbalances.

(1) Satisfactory growth

19. Regional imbalances constitute an obstacle to growth in terms of volume, geographical spread and quality.

As much of the Community's territory has not yet reached the stage of development possible in a modern economy, an enormous growth potential in terms of both production and consumption remains unused. This potential is all the greater since new technical and economic conditions offer development prospects to regions in which there was no industry until the beginning of the twentieth century.

Moreover, economic and urban over-concentration in some zones gives rise to costly infrastructure investments and harmful effects that limit growth potential.

It is therefore essential to make use of the growth potential of currently less-developed regions in order to bring the volume of growth up to the level possible and avoid losses through over-concentration.

20. This would also have the effect of reducing the technical and political vulnerability of the Community's economy which tends to be based on a few main types of activity. The Community's economic growth must be based on as wide and diversified a foundation as its geography allows.

21. From a human point of view, there must also be a uniform geographical spread of activities and, wherever economically possible, populations must be allowed to remain where they are. This would enable savings to be made through better use of infrastructures.

Satisfactory growth means that regional disparities must be reduced to the point where each region's economic potential can be exploited in keeping with the objective of full employment.

(2) Full employment

22. Regional imbalances are an obstacle to full employment. From a quantitative point of view, the Community countries show a regional employment imbalance that is directly related to regional economic disparities.

There is a large labour force in backward or declining regions that cannot find jobs in production whereas before the crisis there was a shortage of manpower in the industrialized regions that was usually made good by immigrant labour.

The objective of full employment pursued by the economic and monetary union is thus very difficult to attain because of the regional imbalances in the Community. Backward or declining regions make it difficult to use available manpower to the full and the transfer of that manpower is in direct conflict with the objective of maximum growth when those regions have some development potential.

(3) Stability

23. Regional imbalances are an obstacle to stability. In Section (a) 'Regional imbalances and the monetary objective', we showed that, because of over-concentration and under-development, regional imbalances jeopardized the attainment of the objective of stability of prices and exchange parities.

Regional imbalances can also be an obstacle to political and social stability. Different regional economic structures in the Member States can have different effects on the internal socio-political climate that may aggravate the effect of economic disparities since the governments may have to take special measures which conflict with the objective of coordinated economic policies necessary for the attainment of economic and monetary union.

(4) External equilibrium

24. Regional imbalances are an obstacle to external equilibrium. The effects of regional imbalances on growth, full employment and economic stability combine to reduce the Community's international competitivity.

Moreover, the varying degrees of regional imbalance in the Member States affect their productivity and general price levels in different ways. The competitive position of each Member State vis-à-vis the rest of the world and the other countries of the Community may be damaged as a result. Countries with serious regional imbalances may then be forced to take economic policy measures to adjust their balance of payments and their currencies that prevent the formation of an economic and monetary union.

(c) Conclusions

25. The above shows that the varying degrees of regional imbalance in the Member States jeopardize the attainment of the monetary and economic objectives of economic and monetary union.

Community structural and regional projects must therefore be implemented if all the objectives of economic and monetary union are to be attained. If there is to be a Community regional policy, all national and Community policies with regional implications must be coordinated.

Although some of its aspects constitute a separate policy, regional policy must be regarded as the regional dimension of all the other policies to be coordinated.

the Community's and the Member States' financial aid must also be coordinated and concentrated on priority development objectives.

The financial resources of the Community and of the European Regional Development Fund in particular must be considerably increased if regional imbalances are to be sufficiently reduced.

B. The importance of measures for adapting regional structures

(a) Public investments and underdeveloped regions: an excessive burden on some States

26. The abovementioned internal study by the Directorate-General for Regional Policy is too old to enable the scale of the necessary measures to be assessed. However, the methodological approach is very interesting.

Industrialization is considered as likely to have the effect of triggering off and supporting a process of economic development. It must, however, be sufficiently concentrated (geographically) and sufficiently diversified (sectorally) to create the inter-industrial relationships and effect the external economies needed for the process of self-development. Development poles must be created.

Industrialization presupposes, on the one hand, the creation of industrial activities and thus of jobs and, on the other, the provision of infrastructures to back up industrial and related activities and provide services for the populations of the regions involved (hospitals, schools,etc).

27. The study estimates the private and public investments needed to create jobs.

On the basis of national assessments, estimates have been made of the jobs needed per country for the purpose of developing less-developed or declining regions up to 1980. The corresponding volume of private investment needed has been estimated on the basis of the average cost of creating jobs in industry. The public aid needed to encourage the creation of jobs depends on the level of development of the various countries.

28. As regards public investments, expenditure is based on the gross fixed capital formation by the public authorities. Such public investment in infrastructures is needed to meet the needs of the population and provide facilities for the region. There is a connection between these two needs and expenditure can be evaluated with reference to the number of inhabitants and the areas involved. Although the infrastructure provided per km^2 is linked to population density, a minimum must be provided to ensure that the people resident in sparsely populated regions stay there.

In order to assess the expenditure needed, the population and area of the less-developed regions of each Member State are calculated. The national average of gross fixed capital formation by the public authorities is applied per inhabitant and per Km^2 (in France and Italy where the proportion of less-developed regions has a marked effect on the national average, the rates are raised to bring them into line with the average rates in the other Community countries). (The calculations were made for the Community of 6).

29. The study concluded that an amount exceeding the actual expenditure on gross fixed capital formation would have to be devoted exclusively to the less-developed regions in France and Italy to provide the infrastructural investments needed to create jobs.

However, neither of these two countries can sacrifice infrastructures in developed regions that must remain competitive within the Community and help to provide the resources needed for infrastructures in the less-developed regions. In addition, aid is given to private undertakings for the creation of jobs.

(b) Community approach and review of the ERDF: inconsistencies in the Council of Ministers

30. This increase in public investment in Member States with a large number of underdeveloped or declining regions creates budgetary problems with repercussions on taxation and, consequently, on prices and incomes. This is likely to create distortions incompatible with the functioning of the common market and the achievement of economic and monetary union.

It is however essential to restore the balance of the economies in the interests of both internal equilibrium of the economies of the Member States and economic equilibrium of the Community as a whole.

When the Member States confirmed their resolve to bring about economic and monetary union they therefore opted for common structural policies by means of which consistent adjustments could be made at Community level. Unless the structural adjustment measures are adequate, inflation and the slowing-down of growth caused by structural and regional inequalities will make European integration no more than a pipe-dream.

31. The Communication on the prospect of economic and monetary union[1] states:

(c) in order to facilitate convergence and lay the foundations for integration, the coming five-year period should see an increase in the financial resources available to the Community in those areas where it can obtain better results than each of the Member States taken individually and contribute, via the redistributive effect of the Community budget, to the reduction of internal imbalances. Initially, this will apply mainly to:

- Regional Policy. It is important here that a positive decision be taken on the Commission's proposals concerning the Regional Fund'.

32. These Commission proposals followed the suggestions made in the report by Mr Delmotte on aspects of the Community's regional policy to be developed in the future[2].

The most important points include the establishment of an overall analytical and conceptional framework, assessment of the regional impact of Community policies, coordination of the policies and financial instruments of the Community and the Member States, the creation of a non-quota section, the broad interpretation of the notion of infrastructure, simplification and acceleration of the Fund's procedures and the major role to be assigned to regional development programmes.

These Commission proposals were approved by the European Parliament on the basis of the report by Mr NOE'[3].

Community regional policy should therefore be something more than a policy to support national regional policies. The creation of a non-quota section could provide the starting point for a genuine Community policy.

The Council of Ministers was to take a decision by 1.1.1978 but still has not done so, showing once again its inability to act in an area essential to European integration, despite the recommendations of several Summit Conferences including the last one in Copenhagen in April 1978 when: 'the European

[1] COM(77) 620 final - III A.(c)

[2] Resolution of 24.4.1977 - OJ No. C 118, 16.5.1977, page 51-Doc. 35/77

[3] Resolution of 13.10.1977 - OJ No. C 266, 7.11.1977, page 35 - Doc. 307/77

Council pointed out that the pursuit of greater internal cohesion implying also a reduction in regional imbalances, constitutes one of the key objectives of the Community enterprise' (Paragraph 7 of the conclusions of the Presidency).

(c) Economic and Monetary Union and endowment of the ERDF: inconsistencies in the European Council

33. As regards the increase in financial resources at the Community's disposal, especially for the European Regional Development Fund, reference should be made to the working document by Mrs Kellet-Bowman, draftsman of an opinion on the endowment of the European Regional Development Fund for 1979[1].

It appears that there are inconsistencies, not only in the Council of Ministers but above all in the European Council. The latter has made declarations on the attainment of economic union and allocates 'high priority... to the aim of correcting, in the Community, the structural and regional imbalances which might affect the realization of economic and monetary union' (Paris Summit Conference, October 1972). However, on two occasions since then, in 1974 and 1977, the European Council has considerably reduced the endowments requested by the Commission and supported by the European Parliament for the European Regional Development Fund.

For the first three years of operation of the European Regional Development Fund, the Commission requested 2,250 m u.a. (1,916 m EUA), but the Summit of December 1974 reduced the figure to 1,300 m u.a. (1,055 m EUA).

For the next three years (1978-1980), the Commission proposed 3,000 m EUA but the European Council of December 1977 reduced the appropriations to 1,850 m EUA.

34. It should be noted that at the meeting of the Committee on Regional Policy, Regional Planning and Transport on 20.4.1978, Mrs Kellet-Bowman pointed out that the European Parliament can not be bound by the decisions of the European Council otherwise it would lose its right of amendment.

During the budget debate in 1977, the European Parliament should not have agreed to the figure of 580 m EUA proposed by the European Council as the endowment for the European Regional Development Fund in 1978 (with the addition of a symbolic 1 m EUA).

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[1] PE 52.843/rev.

To avoid a clash with the Council of Ministers, the European Parliament decided against the unanimous opinion of its Committee on Regional Policy, Regional Planning and Transport and against the opinion of its Committee on Budgets which supported the Commission's proposal of 750 m EUA as the endowment of the European Regional Development Fund in 1978.

35. The European Parliament is thus being as inconsistent as the European Council since in its resolution it calls for a 'a revival of economic and monetary union' but refuses to grant the funds needed to bring this about, i.e., to increase the endowment of the Regional Fund.

For the 1978 budget the Regional Fund has in effect been reduced by comparison with 1977, because of the high rate of inflation in the Member States since 1974, when the 1977 endowment was fixed. It is to be hoped that the Council of Ministers and the European Parliament will have learnt their lesson in time for the debate on the 1979 budget.

36. In paragraph 46 of the explanatory statement of the report by the Committee on Regional Policy, Regional Planning and Transport on aspects of the Community's regional policy to be developed in the future, Mr Delmotte points out that the size of the Regional Fund should not be fixed in advance so that:

'-the possibility of increasing the Fund's financial resources in the future is left open,

-democratic control can be exercised over the establishment and utilization of these resources'.

(d) 'Overall' budgetary approach and McDOUGALL report

37. The Commission's communication of 27.2.1978[1] on the global appraisal of the budgetary problems of the Community which is the subject of a working document by Mr Kellett-Bowman, points out that the Community budget represents no more than 2.5% of the national budgets of the Member States and only about 0.8% of the Community's gross domestic product and that almost three quarters of the appropriations are devoted to the common agricultural policy.

Chapter A, General Guidelines, paragraph 1, states that the Community budget 'in no way measures up to the role it is required to play towards achieving the objective of economic and monetary union and enlargement to which the highest Community authorities recently again declared themselves firmly attached'.

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[1] COM(78) 64 final

Paragraphs 6, 7 and 8 stress that there is no question of increasing national expenditure. On the contrary, 'the development of such Community policies should lighten the load on the national budgets'.

38. In Chapter C, 'Some repercussions on the 1979 budget', paragraph 6 states that 'the need already so strongly felt for a substantial increase in the financial resources earmarked for alleviating the effects of regional imbalance is felt even more acutely in the perspective of economic and monetary union as well as that of enlargement'.

The communication conclused that 'much greater financial resources than at present planned must be provided' for the Community's regional policy.

39. The report by the Study Group on the role of public finance in European integration prepared by a group of independent experts set up by the Commission under Sir Donald McDougall, notes in its introduction[1] that 'a 10 billion unit of account packet could reduce inequalities in living standards between Member States by about 10%... and might be judged an acceptable start'.

In our view, this report is the essential document in the prospective of economic and monetary union.

This fundamental study is available only in French and English; it therefore seems desirable to quote some passages of decisive relevance to our subject.

40. In the introduction, under the heading 'Implications for the future role of public finance in the Community' (page 14), the expenditure functions which might be carried out to a greater extent at Community level have been considered on the basis of the following criteria:

> 'First, the case for Community involvement where this can achieve 'economies of scale'...
>
> Secondly, there is a case for Community involvement when developments in one part of the Community "spill over" into other parts of it, or indeed all of it... An important example, internal to the Community,.. will, in our view, be Community action in the areas of structural and cyclical policies (regional, manpower, unemployment) to ensure so far

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[1] Commission of the European Communities, Brussels, April 1977, last paragraph, page 16

This study consists of two documents:

- Volume I : General Report (76 pages)
- Volume II : individual contributions and working papers (517 pages)

as possible that the benefits of closer integration are seen to accrue to all, that there is growing convergence - or at least not widening divergence - in the economic performance and fortunes of Member States. Those measures should make a start in reducing the inequalities in per capita incomes between the various parts of the area; the situation in the eight countries studied tends to confirm that this is a necessary part of economic union.

Thirdly, we assume that most member governments are reluctant at the present time to see any significant increase in total public expenditure at all levels - Community, national, state and local - as a percentage of gross product.'

41. Five main directions in which the Community's expenditure might be changed are listed under the title 'Changes in the Community's expenditure' (page 15), including:

'(e) It is in the area of structural, cyclical, employment and regional policies that we see the main need for substantial expenditure at Community level. The purpose of these measures is mainly to help to reduce inter-regional differences in capital endowment and productivity. Our general report sets out a "menu" of six possibilities.

(i) More Community participation than at present in regional policy aids (employment or investment incentives, public infrastructure, urban redevelopment).

(ii) More Community participation than at present in labour market policies (including vocational training and other employment measures).

(iii) A Community Unemployment Fund on the lines suggested in the Marjolin Report under which part of the contributions of individuals in work would be shown as being paid to the Community and part of the receipts of individuals out of work as coming from the Community...

(iv) A limited budget equalisation scheme for extremely weak Member States to bring their fiscal capacity up to, say, 65% of the Community average and so ensure that their welfare and public service standards are not too far below those of the main body of the Community.

(v) A system of cyclical grants to local or regional governments that would depend upon regional economic conditions.

(vi) A "conjunctural convergence facility" aimed at preventing acute cyclical problems for weak Member States leading to increasing economic divergences.

We judge that a selection from these six possibilities, or variants of them, involving budgetary expenditure of the order of 5 - 10 billion units of account per annum on average could be regarded as beginning to be economically significant. A 10 billion unit of account packet could reduce inequalities in living standards between Member States by about 10%...

Where grants are involved in the above possibilities (other than the suggested Unemployment Fund) they should be made as cost-effective as possible. This could involve, for example, the use of specific purpose matching grants (the Community providing a share of the total cost); having variable matching ratios, e.g. between 80% and 20% for poorer and richer states or regions so that the money went where it was most needed; and possibly the attachement of macro-economic performance conditions (on inflation, monetary policy, etc.) to some of the grants, to increase the likelihood that they would increase economic convergence.

The net cost of the suggestions under (a) - (e) above, allowing for savings, economies of scale, and mere transfers of expenditure from national to Community level, as well as for the hopefully favourable effects on the growth and stability of the Community's gross product, should not increase total public expenditure in the Community at all levels as a proportion of real product by much more than a percentage point. Allowing for the transfer of expenditure from national to Community level, the Community budget might rise from 0.7% to around 2 - 2½%.'

CONCLUSIONS

42. It should be remembered that the Council of Ministers takes the view[1] that

'...an effective policy on regional structures is an essential pre-requisite to the realization of economic and monetary union'.

The European Regional Development Fund should intervene to correct 'the main regional imbalances within the Community which are likely to prejudice the attainment of economic and monetary union' (Regulation establishing the Fund, Article 6(1)[2].

43. The analysis in the first part of this opinion shows that 'the varying degrees of regional imbalance in the Member States jeopardize the attainment of the monetary and economic objectives of economic and monetary union.

The conclusions of this first part, set out in paragraph 25, are that 'Community structural and regional projects must therefore be implemted if all the objectives of economic and monetary union are to be attained'.

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[1] Regulation (EEC) No. 724/75 of the Council of 18 March 1975 establishing a European Regional Development Fund, OJ No. L 73, 21.3.1975, p.1

[2] Ibid., p.3

44. In conclusion, if the European Parliament wishes to revive the economic and monetary union, it must accept one of the essential prerequisites which is a reduction in regional imbalances. This reduction has also become one of the conditions for the sound functioning of the common market. This reduction is not possible without a very substantial increase in the financial resources of the European Regional Development Fund.

45. Both these aspects are stressed in the motion for a resolution submitted on behalf of the Christian-Democratic Group. Perhaps more emphasis should be placed on the first aspect since, as we showed in chapter A, regional imbalances are an obstacle to the attainment of economic and monetary union.

The second aspect, i.e., increasing the Community's financial resources, should be regarded as a consequence of the resolve to achieve economic and monetary union.

Paragraph 8 of the motion for a resolution should indicate that, although regional policy has certain aspects which are in effect separate policies, it should be regarded as the regional dimension of all the policies it coordinates. It is thus the other policies mentioned (industrial and craft) that must be compatible with regional policy.

ANNEX IV

Letter from the chairman of the Committee on Regional Policy, Regional Planning and Transport to Mr E. PISANI, chairman of the Committee on Economic and Monetary Affairs

Luxembourg, 26 October 1978

Dear Mr Pisani,

The Committee on Regional Policy, Regional Planning and Transport has been asked to give its opinion to your committee concerning a motion for a resolution on economic and monetary union tabled by the Group of European Progressive Democrats (Doc. 209/78).

My committee considered this matter at its meeting of 26 October 1978 when it concluded that it had nothing which it could usefully add to the opinion (PE 53.661) which Mr DAMSEAUX has already given on a previous occasion concerning this matter.

.....

(sgd) Bruce of Donington

Present : Lord Bruce of Donington, chairman ; Mr Nyborg and Mr McDonald, vice-chairmen ; Mr Albers, Mr Brosnan, Mr Delmotte, Mr Fuchs, Mr Haase, Mr Ibrügger, Mrs Kellett-Bowman, Mr Osborn, Mr Schyns and Mr Seefeld.

ANNEX V

OPINION OF THE COMMITTEE ON SOCIAL AFFAIRS, EMPLOYMENT AND EDUCATION

Draftsman : Mr F. G. van der GUN

At its meeting of 24 January 1978 the Committee on Social Affairs, Employment and Education appointed Mr F. G. van der GUN draftsman.

It considered the draft opinion at its meetings of 31 March, 17 May, 20 October and 2 November 1978 and at the last meeting adopted it by 7 votes to 2 with 2 abstentions.

Present : Mr van der Gun, chairman and draftsman ; Mrs Dunwoody and Mr Pistillo, vice-chairmen ; Mr Bertrand, Mr Bouquerel, Mr Dinesen, Mr Lezzi, Mr Power, Mrs Squarcialupi, Mr Vandewiele and Mr Wawrzik.

CONCLUSIONS

The Committee on Social Affairs, Employment and Education requests the committee responsible to incorporate the following conclusions in its motion for a resolution:

Social aspects

1. Is of the opinion that the EMU (EMS) to be established by the Governments must ultimately lead to a much more far-reaching alignment of the Member States' economic policy and that this alignment can only succeed if it is accompanied by greater economic convergence and a reduction in the regional and social disparities between the Community Member States and if it has the wholehearted support of the Community's citizens;

2. Is convinced that this will not be possible in the present social and economic situation if the plans for the EMU(EMS) are merely 'backed up by a social policy'[1], but only if the basic objective is recognized from the outset as an integrated economic, monetary and social policy;

3. Notes that, in contrast to the first Commission document[2], the new proposal[3] no longer treats social policy as entirely subordinate to the need for the smooth functioning of the economy but at least verbally acknowledges it to be of equal importance to, and an essential aspect of, economic policy;

4. Nevertheless considers the package of suggestions put forward by the Commission in February 1978 to be too restricted and incoherent a basis for attaining the objective set out in point 2 of these conclusions, since they remain limited by the present legal, financial and budgetary structure of the social provisions of the EEC Treaty;

5. Considers that the social component of the EMU(EMS) should be embodied in a long-term programme and that Article 235 of the EEC Treaty should consequently be invoked to provide a much broader legal basis for a vigorous Community social policy in order to adapt to current objectives and specific requirements the means provided for in the 1957 Treaty which have in the meantime been superseded in political and economic terms, to which end the means provided for under the ECSC Treaty might also serve as a model.

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[1] COM(77) 620 final, p.15, subpara.(e)

[2] COM(77) 620 final

[3] COM(78) 52 final

6. Considers, moreover, that for the ESF, in the context of EMU(EMS),

- a considerable transfer of resources to the Fund
- a fundamental extension of its tasks, and
- a radical reform of its management structure

are essential, in particular to safeguard employment, and in general to make the Fund serve as the employment fund unmistakably intended in Article 125(1) of the EEC Treaty; draws attention to its repeatedly[1] expressed demand that the Commission propose to the Council that the Commission, as manager of the Fund, should gradually be granted powers to act on its own initiative and, pending this development, expects the Commission to continue to propose to the Council, in given cases outside the scope of the Fund, special temporary budgetary appropriations for aid to specific sectors[2];

7. Also considers it urgently necessary for account to be taken at this stage of:

- the need in due course to extend the EMU(EMS) - with particular regard to its social aspects - between the present nine Member States to those countries which will shortly be acceding to the Community, and vice-versa;

- the implications of their accession for the EMU(EMS), namely the increase in the freedom of movement for workers, the increasing economic and social disparities between the northern and southern regions of the enlarged Community and so forth.

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1 Parliament's most recent Resolution of 12 May 1977, paragraph 15, OJ No C 133, 1977

2 Fisheries sector (Doc. 357/77): Parliament's Resolution of 16 December 1977, paras. 47 et seq., OJ No. C 6, 1978; see also Chapter 37 of the Community budget, 'Commission'